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COMMISSION STAFF WORKING PAPER

IMPACT ASSESSMENT

Accompanying the document

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing a Creative Europe Framework Programme

{COM(2011) 785 final}
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PART I: CULTURE STRAND

Lead Service: DG Education and Culture supported by the Education, Audiovisual and Culture Executive Agency (EACEA)

Other involved services: DG COMM, DG DEVCO, DG ELARG, DG MARKT, DG RTD, DG SJ, DG TRADE, SG.

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Purpose of the impact assessment report

DG EAC will propose a single "Creative Europe" framework programme bringing together the current Culture, MEDIA and MEDIA Mundus programmes. The proposal for a Creative Europe framework programme will include separate strands for Culture, MEDIA, a cross-sectoral strand (the latter will include a financial instrument for the cultural and creative sectors (CCS)).[1] The Creative Europe package includes separate impact assessments for MEDIA/MEDIA Mundus and the CCS financial instrument. This document contributes to the overall exercise by presenting exclusively the impact assessment of the future strand aimed at the cultural sector, including the cross-sectoral strand, but excluding the audiovisual industry. The proposal is in line with the Communication of the Commission on the Multiannual Financial Framework adopted on 29 June 2011 ("A Budget for Europe 2020"), which proposes to attribute a sum of € 1.6 billion to the programme for the seven year duration.

1.2. Procedural issues, organisation and timing, and consultation of interested parties

The impact assessment for the future programme was prepared between mid-2010 (establishing the Roadmap) and June 2011. The impact assessment was followed by an inter-service group for Culture which is composed of DG EAC, DG COMM, DG DEVCO, DG ELARG, DG MARKT, DG RTD, DG SJ, DG TRADE, SG, although all Directorates-General were invited. The group met in September 2010 and July 2011 in order to provide contributions during the impact assessment preparation. During the meeting in July 2011 the draft Commission Staff Working Paper on the Impact Assessment accompanying the document Decision of the European Parliament and of the Council establishing a European Union action for Culture was discussed.

The IA was submitted to the Impact Assessment Board on 7 September 2011. The Impact Assessment Board delivered its opinion on 7 October 2011. Recommendations provided by the Board in its opinion have been taken into account in this IA. The IAB´s opinion focused on three elements:

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1 Concerning the definition of cultural and creative industries (CCI), "cultural industries" are those industries producing and distributing goods or services which at the time they are developed are considered to have a specific attribute, use or purpose which embodies or conveys cultural expressions, irrespective of the commercial value they may have. Besides the traditional arts sectors (performing arts, visual arts, cultural heritage – including the public sector), they include film, DVD and video, television and radio, video games, new media, music, books and press. This concept is defined in relation to cultural expressions in the context of the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions. "Creative industries" are those industries which use culture as an input and have a cultural dimension, although their outputs are mainly functional. They include architecture and design, which integrate creative elements into wider processes, as well as subsectors such as graphic design, fashion design or advertising. At a more peripheral level, many other industries rely on content production for their own development and are therefore to some extent interdependent with CCIs. They include among others tourism and the new technologies sector. These industries are not explicitly covered by the concept of CCIs used here. The term CCI is used interchangeably in this report with "cultural and creative sectors".

(1) The problem definition in relation to the evaluation results of the current programme and the stakeholder input, and the intervention logic;

(2) The budget distribution between the framework programme´s different policy strands and the assessment of the available alternatives;

(3) The assessment of the expected impacts and the structuring and systemic impacts the programme aims to achieve.

This revised version of the IA takes account of the IAB´s opinion:

– Further clarity is provided in section 2 on the logic leading to the identification of the problems the sectors are facing and on the material contributing to this analysis. In section 3 a diagram depicts the inter-linkages between the identified needs, the specific objectives, and provides indications of some expected results and examples of possible actions. The various value chains are developed more in the problem definition and option 2 in section 4.1, the problem definition has been clarified, references to studies have been incorporate and an analysis of problems per sector is provided in annex 5;

– The division of funds is presented in section 4 (option 3) and the various considered policy options are explained;

– In sections 4 and 5 the policy options and assessment of impacts have been strengthened, including the scale and structuring effects of the new programme, and the various discarded options are explained. This analysis also includes clearer indications of input from the evaluation of the previous programme, studies, consultations and external consultation services provided for the development of this IA.

1.3. External expertise

The Commission's impact assessment builds on consultancy services provided to the Commission by Ecorys UK Limited for *"The impact assessment of the future programme on Culture*". The contractor collected data and compiled a report containing relevant information on developments within the cultural and creative sectors. This report contributed to establishing the problem definition, to the formulation of the objectives for future action in this field, and the analysis and comparison of options. The Commission's impact assessment also draws significantly on the findings of the interim evaluation of the current Culture Programme[2] and the studies outlined in annex 1.

1.4. Consultation

A public consultation on the future of the Culture Programme took place between 15 September and 15 December 2010.

[2] Interim Evaluation of the Culture Programme 2007-2013; ECORYS UK, on behalf of the European Commission , 2010, http://ec.europa.eu/dgs/education_culture/evalreports/culture/2010/progreport_en.pdf

The consultation was fully in line with the General principles and minimum standards for consultation of interested parties by the Commission.[3] Adequate time was provided for preparation and planning of responses, with the online consultation running for 3 months. The questionnaire posed both closed as well as open questions. A considerable number of organisations also sent in separate position papers. With almost 1,000 responses (589 from individuals, and 376 from organisations and public authorities), this represented a good sample for the future analysis.

The **public online consultation** was designed to build on the findings of the interim evaluation, which highlighted many positive benefits of the programme and its unique role in fostering transnational cultural cooperation, but recommended certain improvements. The consultation's main aim was to identify the real needs of the sector to assist in formulating the aims and priorities of the programme and to identify areas of improvement in programme implementation. The consultation revealed strong support for the continuation of a specific EU programme for culture, with 93% support among respondents, but also indicated the need for a realignment of the objectives with the goals of Europe 2020 (also among most public authorities) and the contribution of the programme to safeguarding and promoting cultural and linguistic diversity. The results confirmed support for priorities contributing to the strengthening of the cultural sector through professional development and capacity-building of artists/cultural operators in an international context (supported with a score to 'a great extent' by 70% of the respondents); and promoting the trans-national circulation of cultural works and products, including the mobility of artists, performers and cultural professionals (supported with a score to 'a great extent' by 72% of respondents). Priorities of a more social nature were also endorsed, including widening access to culture and participation in culture of disadvantaged groups (social inclusion) (supported with a score to 'a great extent' by 72 % of respondents).[4]

> Some public authorities underlined the importance of the integration of support for cultural and creative micro-businesses into the formulation of a successor of the current culture programme. There were also calls for support for projects addressing the adaptation to the digital shift, however, there was consensus that it should not focus on mass digitisation, which many found should be covered by other funding programmes. There was some support for small grants that would facilitate the access of creative individuals and very small operators into the programme. However, others emphasized the need to minimise the management costs of a new programme.
>
> The consultation illustrated the diversity of the cultural sub-sectors covered by the Programme as well as the fluidity between different art forms and the need for the programme to continue to accommodate sufficient flexibility as a consequence.

With regard to management of the programme one of the main issues highlighted was the complexity of degressivity for beneficiaries of operating grants.

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3 "Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission", COM(2002) 704 final.

4 The report of the public consultation and a summary of the public consultation meeting are in annex 3 (see also http://ec.europa.eu/culture/our-programmes-and-actions/consultation-on-the-future-culture-programme_en.htm).

The volume of responses received and the wide range of stakeholders participating are proof of the success of this consultation and the effectiveness of the approach chosen. The proposals were thoroughly considered by the Commission and used for the preparation of both this impact assessment report and the future programme design.

The *public online consultation* was followed by a **public consultation meeting** on 16 February 2011 in Brussels, which was attended by more than 550 people, many on behalf of representative European cultural organisations. Amongst other things this meeting underlined the need to realign the objectives of a future programme with the Europe 2020 strategy, it highlighted the role the programme can play in strengthening the sectors' capacity to work across borders and it was emphasized that the digital shift is having strong impacts on the cultural and creative forcing the sector to adapt and requiring the sector to get greater access to funding.[5]

2. CONTEXT AND PROBLEM DEFINITION

2.1. Historical and Policy context

With regard to the **historical context**, since the adoption of the Maastricht Treaty in 1992, the form of support for culture has evolved between 1996 and 2011 and its scale has increased. A sequence of specific actions has been taken at European level to address issues concerning cross-border circulation, trans-national mobility and the emergence of European citizenship. Four separate programmes were adopted with a focus on cultural creation through cooperation, support for the book and reading sector and cultural heritage, and support for European cultural organisations. The Culture 2000 brought most of these actions together within one single programme. The Culture 2007-2013 has followed a more transversal approach. The history of the subsequent support programmes is summarised in the table below.

Table 1: EU programmes supporting culture

Year	**Programme(s)**	**Budget**	**Key areas of support**
1996-1999	Kaleidoscope	€ 36,7 million	Support for cultural creation in Europe through cooperation
1997-1999	Ariane	€ 11,1 million	Support for the book and reading sector
1997-1999	Raphael	€ 30 million	Cultural heritage
2000-2006	Culture 2000	€ 236,5 million	Cultural cooperation in all artistic and cultural fields, except audiovisual
2004-2006	Bodies active at European level in the field of culture	€ 19 million	Support for European organisations in the field of culture (culture, remembrance, minority languages)
2007-2013	Culture 2007-2013	€ 400 million	Cross-border cultural cooperation in view of encouraging the emergence of European

[5] Result of the public consultation meeting, ibid.

			citizenship

In recent years there have been important developments concerning the **policy context** for culture. In 2007 the Commission adopted its first real strategy for culture, "The European Agenda for Culture"[6] which was recognised at the highest level by the European Council in its conclusions of December 2007. The Agenda has three strategic objectives: to promote cultural diversity and intercultural dialogue, to foster culture as a catalyst for jobs and growth, and promotion of the vital role of culture in international relations.

As culture is an area of strong subsidiarity, the Agenda introduced new partnership methods of working with Member States through a new Open Method of Coordination (OMC) and with stakeholders through a structured dialogue. An assessment of the first three years implementation of the agenda was published in July 2010 with examples of progress by Member State and the European Commission in relation to each of the three strategic objectives and proposals to improve working methods.[7] The Council has recently adopted its second work plan for the period 2011-2014 to contribute to implementation of the Agenda, with the following priority areas: cultural diversity, intercultural dialogue and accessible and inclusive culture; cultural and creative industries; skills and mobility, cultural heritage, including mobility of collections; culture in external relations; and culture statistics.

Furthermore, in accordance with the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire*, the EU has a moral and legal obligation to take action to promote and safeguard cultural and linguistic diversity.

Europe 2020, the ten year growth strategy for the EU adopted in 2010, emphasises the importance of "creativity, innovation, and entrepreneurship" which are central to the cultural sector. The EU needs to provide more attractive framework conditions for innovation and creativity, including through incentives for the growth of knowledge-based firms. Access to credit is a particular problem, not only in the aftermath of the crisis but because some new sources of growth such as the cultural and creative industries need new types of financing adapted to their business models.[8]

The Culture Programme contributes to the aims of the flagships on Innovation Union (the role of culture in fostering social innovation[9]), A Digital Agenda for Europe (promotion of attractive online content and services and its free circulation), An Agenda for New Skills and Jobs (contribution to the employment headline target), An Industrial Policy for the Globalisation Era (importance of the CCI as drivers of economic and social innovation, supporting new business models), and the European Platform against Poverty (the potential of

6 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a European agenda for culture in a globalizing world (COM(2007) 242 final), 10.05.2007.

7 Commission Report to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a European agenda for culture in a globalizing world (COM200)390 final, 19.7.2010

8 "Europe 2020 Strategy: A European strategy for smart, sustainable and inclusive growth", p. 11, http://europa.eu/press_room/pdf/complet_en_barroso___007_-_europe_2020_-_en_version.pdf.

9 For example, the contribution of architecture to better designed hospitals and schools, which can contribute to patient recovery and pupil behaviour and performance, and with spill-overs also for construction and urban planning.

culture to reach out to the socially excluded). However, this can be greatly optimised by a more targeted approach in a future programme.

2.2. Sector context

Beyond the intrinsic value of culture, the cultural sector is important for economic, educational and social reasons and the EU would wish to see all Member States with thriving and vibrant cultural sectors, optimising the transformative economic and social power of culture. This potential is demonstrated by the fact that the cultural and creative sectors (CCS) account for 4.5% of the Union's GDP in 2008 and employ some 3.8% of its workforce.[10] Beyond their direct contribution to GDP, these sectors trigger spill-overs in other economic areas such as tourism, fuelling content for ICT, benefits for education, social inclusion and social innovation. Despite witnessing higher than average growth rates in many countries in recent years, their contribution could be far greater as explained below.

As indicated in this IA, studies and consultations carried out concerning Europe´s cultural and creative sectors, there is considerable difficulty in assessing the sectors´ current state, due to variance between Member States and lack of comparable information on the sectors´ turnover, sales and employment. The European Competiveness Report 2010[11] indicates that while a number of studies and policy documents indicate the growing importance of trade in creative products, and the sound export performance of the cultural and creative sectors, this issue until now has almost never been studied in a thorough way (mainly due to the lack of statistical data, also noted in the context of this IA). The report however does recognise the sectors dynamic nature and emphasizes that a number of sub-sectors have increased their competitive advantage in the period 2000-2005 (for example antiques and publishing), but it also points out sectors where the position has deteriorated (such as interior design, arts and crafts, visual arts (except antiques)). It concludes that although the EU mostly retains its power to compete in for example design goods, its competitiveness there has eroded.

The detailed sector analyses in annex 5 give an overview of the different problems the various sub-sectors are currently facing, namely cultural heritage and museums, visual arts, performing arts (opera, dance, drama, street performance, orchestras), music, literature, design, applied arts and architecture. Under the programme there are also a growing number of multimedia projects and a large number of interdisciplinary projects. The sectors are highly diverse in terms of business models, organisational modes, cooperation structures, levels of public funding and economic performance, something that is confirmed by the European Competitiveness Report 2010[12] and responses to the Commission's Green Paper on “Unlocking the potential of cultural and creative industries”[13]. However, in most cultural sub-

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[10] Building a Digital Economy: The importance of saving jobs in the EU’s creative industries, TERA Consultants, March 2010. According to the Federation of European Publishers, book publishing employs 135,000 people full time and contributes approximately € 24 billion to EU GDP. According to IFPI, the total value of the EU recorded music market is around € 6 billion. The recorded music market presents around a fifth of the total music market which is worth close to € 30 billion. The audiovisual industry in Europe produces more than 1,100 films per year and employs over 1 million people. (Source: Multi-Territory Licensing of Audiovisual Works in the European Union, KEA study, October 2010.)

[11] European Competitiveness Report 2010, Commission staff working document, SEC(2010) 1276

[12] European Competiveness report, op.cit.

[13] Green Paper “Unlocking the potential of cultural and creative industries”, COM(2010) 183 final 27.04.2010; Commission Staff Working Document, “Analysis of the consultation launched by the

sectors the value chains are more interconnected than in the audiovisual industry, with the main exceptions being the publishing and book retail chain and popular music production, distribution and retail chains, since the development, production, distribution, sales of a work and the related customer/audience relations are normally the responsibility of the producer of the work. This is why – in contrast to the MEDIA Programme for the audiovisual sector - the Culture Programme has had a more flexible and interdisciplinary approach, with the exception of the support for literary translation to publishing houses.

2.3. Baseline description: The Culture Programme

The current Culture Programme is based on Decision N° 1855/2006/EC of the European Parliament and of the Council of 12 December 2006 establishing the Culture Programme (2007 to 2013). The current allocated budget is € 400 million for the 7 year period for the 27 EU Member States. 9 further European countries take part in the programme, contributing an entry fee. These are the EEA (Iceland, Norway, Liechtenstein) Turkey, Serbia, Croatia, Montenegro, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia. The programme also supports cooperation with certain third countries through an annual call.

The programme is open to operators (including cultural enterprises) from all cultural sectors, except the audiovisual industry for which the MEDIA programme exists. Projects are co-funded, with the vast majority (the cooperation projects) at a maximum rate of 50%, and some other possibilities at 60% and 80%.

The general and specific objectives of the current Culture Programme are indicated in the table below (table 2).

Table 2: Culture Programme 2007-2013: general and specific objectives	
General objective	To enhance the cultural area shared by Europeans, based on a common cultural heritage through the development of cultural cooperation between creators, cultural players and cultural institutions taking part in the programme, with a view to encouraging the emergence of European citizenship.
Specific objectives[14]	Promote the transnational mobility of cultural players Encourage the transnational circulation of works and cultural and artistic products Encourage intercultural dialogue

With an average € 57 million per annum budget[15] throughout the lifetime of the programme the EU spending on transnational cultural cooperation is – in comparison - highly cost effective in view of the fact that every year this small sum of money helps thousands of cultural works – including some 500 translated books – to circulate across borders, reaches over 1000 cultural organisations, an estimated 20,000 artists/cultural professionals, and millions of people directly and indirectly through the supported activities.

Green Paper on "Unlocking the potential of cultural and creative industries", SEC(2011) 399 final, 24.03.2011.

14 Projects must meet at least two of the specific objectives.

15 To put this into perspective, this is equivalent to the annual running and production costs of many single national opera houses/companies and far below the level of the national public funding of arts and culture in the UK, FR, DE (respectively £ 590 million, € 7.5 billion, € 8.5 billion).

The interim evaluation concludes that the demand for support from the Programme far exceeds the resources available. This is for example demonstrated by the average acceptance rates for projects. Across the programme as a whole, for the period 2007-2010, across all strands these were low at 31.5% and even lower for the transnational cooperation projects, for which it was 25%, and well below 20% for the larger category of projects. The evaluation stresses that the financial crisis will raise new challenges for international cultural co-operation and those cultural operators who wish to apply for support from the Programme. This requires consideration of the advantages and disadvantages of the current co-financing rates in relation to access to the Programme.

Beyond the specific objectives the programme does not specify any further priorities, leaving freedom to cultural operators to adopt tailored approaches suited to their needs. In addition to the explicit objectives of the programme, projects tend to pursue various other aims, including: the development of sectors/art forms; the career development (professionalization) of artists/cultural operators; artists in residence/touring; exploring artistic themes; creating new works, performances and events of high quality; promoting access and participation in culture, especially the disadvantaged; education, training and research; and information, advice and practical support.

Two broad types of activities are typically undertaken: cultural activities (artistic exchanges, joint cultural creation, co-productions, tours and festivals, and exchanges of artefacts); and support activities (exchanges of experience and networking, provision of information and practical support for operators, education, training and research). The interim evaluation recommends greater clarity in the future on priorities.

The spending on the programme is currently subdivided by types of instruments, rather than its objectives. The indications in the legal base, which are followed as far as possible, are:

- Support for cultural actions, cooperation projects, special actions, including literary translation (approximately 77% of the annual budget of which approximately 60% for cooperation projects, 4% for literary translation, 13% for special actions (including cooperation with third countries));

- Support for bodies active at European level in the field of culture/operating grants (approximately 10% of the annual budget of which approximately 55% allocated to Ambassadors, 40% to Networks and 5% to Platforms);

- Support for analysis, collection and dissemination of information (approximately 5% of the annual budget);

- Programme management (approximately 8% of the annual budget).

The interim evaluation, public consultations and reporting within the framework of the OMC clearly recognise the Culture Programme's unique character in stimulating transnational artist mobility, promotion and circulation of cultural works. Evidence based on the "Mobility Matters"[16] study and the interim evaluation shows that building networks and increasing co-operation are important prerequisites for mobility in the culture sector and that three-quarters

16 Mobility Matters: Programmes and Schemes to Support the Mobility of Artists and Cultural Professionals in Europe", an ERICarts Institute Study for the European Commission, October 2008.

of partnerships supported by the Programme are sustained in the long run. However, a more targeted approach to this subject within the programme could increase the impact on circulation and building the sector's capacity to operate at an international level.

Regarding the sectoral distribution of projects under the **current programme**, with the exception of literary translation which is specifically targeted at publishing houses, all projects are assessed on the basis of quality irrespective of the different sub-sectors. Literature projects are most numerous because of the large number of small projects under the literary translation strand. However otherwise, performing arts projects have been most numerous, but with high rates also for cultural heritage, the visual arts, and growing numbers of multimedia projects. If literature is excluded, interdisciplinary projects were continuously the most numerous after the performing arts in 2008, 2009 and 2010. The interim evaluation recommends maintaining the interdisciplinary approach due to the fluidity between different sectors, and the fact that boundaries are becoming even more blurred with the digital shift. Furthermore, an interdisciplinary approach is in line with the European Agenda for Culture and the line followed in the OMC and stakeholder platforms, which are organised around key challenges, rather than sub-sectors.

The vast majority of grants under the programme are managed through the Executive Agency for Education, Audiovisual and Culture (EACEA) through annual calls for proposals published in a stable Programme Guide. As confirmed by various evaluations this has proved to be a cost-effective management mode for the cross-border projects the programme supports (no individual mobility funding). A network of Cultural Contact Points (CCP), one for each country taking part in the programme, provides information on the programme and assistance to applicants (they do not distribute). The CCP are co-funded at a rate of 50% from the programme with Member States co-funding the rest.

Currently the EACEA manages 9 calls for proposals for funding applications under the Programme: multi-annual cooperation projects, two year cooperation projects, literary translation projects, cooperation projects with specified Third Countries, support to European cultural festivals, operating grants for organisations active at European level in the field of culture (Ambassadors, Advocacy networks, Platforms), and cooperation projects between organisations involved in cultural policy analysis). Whilst the interim evaluation indicated that the simplifications under the **current programme** had been appreciated by beneficiaries, it recommended ensuring the future programme is as streamlined as possible, including suggestions to discontinue or modify certain categories with a view to prioritising measures with greater long-term potential and critical mass. Furthermore, the CCPs, who are in direct contact with operators, have on numerous occasions indicated that the large number of different actions generates complexity and confusion both for themselves and applicants. More general feedback on the programme has repeatedly highlighted that operating grants are complex and problematic for applicants and beneficiaries as an instrument.

Another relevant initiative is the **European Capitals of Culture (ECOC)** based on Decision N° 1622/2006/EC of the European Parliament and of the Council of 24 October 2006. This has a separate legal base, but each city currently receives a grant of € 1.5 million from the Culture Programme and will, in principle, continue to receive this amount for the duration of the current legal base. At the time of writing a new **European Heritage Label** is in the final stages of negotiations. It will also have a separate legal base – a European Parliament and

Council Decision – with a small amount of funding – some €700,000 annually - from the future programme to cover its running costs. [17]

2.4. Identification of problems and their underlying drivers

The Commission has identified four common challenges facing the cultural and creative sectors needing to be addressed in a future funding programme for these sectors: the fragmented market context, the impact of globalisation and the digital shift, the shortage of comparable data, and difficulties in accessing finance. These problems are of a trans-national nature and require a targeted European approach. In all four cases, tackling these problems at a European level – in addition to actions taken at a national and regional level - would contribute to cultural and linguistic diversity and optimise the potential of the sector to contribute to jobs, growth and social inclusion.

The Commission has reached this conclusion after careful consideration, having analysed the findings of the interim evaluation of the **current programme**, its own research and experience of the programme, independent studies commissioned specifically for policy purposes (Annex 1), other independent research, some of which is referenced in this document, and support services by an external contractor to assist with the impact assessment including an analysis of the challenges facing the different cultural sub-sectors (Annex 5). Stakeholder views have also been closely assessed, including the public consultation exercises specifically for the preparation of the future EU funding programmes, the feedback to the Commission's Green Paper on the potential of the cultural and creative industries which received 350 responses, as well as the recommendations made by experts in the context of the culture OMC and structured dialogue with the sector over the period 2008-2010. It should also be noted that most of the studies carried out for the Commission included extensive surveys of relevant stakeholders.

It needs to be stressed, however, that there are many other variables and causal factors at work than just a future EU support programme, such as national and regional policy priorities and funding support. The programme cannot address problems stemming from the regulatory and fiscal environment, which must be tackled through other means.

2.4.1. Problem 1: A highly fragmented market for cultural works resulting in sub-optimal circulation of cultural works and limited choice for consumers

The first challenge relates to the highly **fragmented market** for cultural works stemming largely from Europe's cultural and linguistic diversity, which results in these sectors being essentially fragmented along national and linguistic lines and lacking critical mass. On the one hand this fragmentation is a challenge, but on the other hand, to the extent that it is an inevitable consequence of cultural and linguistic diversity, it is also something that the EU is committed to safeguarding and promoting.

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[17] Although the funding for the Capitals currently comes from the Culture Programme, they have a separate legal base due to the different logic and time span involved. More specifically, as they are a major international cultural event, they need long-term forward planning (in the same way as the Olympics) and the selection process begins six years before the event. As there are two Capitals from two different Member States per year, the current rotation period among Member States is 14 years. Similarly, the European Heritage Label is being set up for an unlimited duration.

However, one of the consequences of fragmentation which needs addressing at EU level is the fact that it leads to **limited and sub-optimal transnational circulation of works and mobility of artists and geographical imbalances**. Cultural operators (both non-profit-making organisations and enterprises) need therefore to operate trans-nationally to establish new contacts to improve their professional skills and career possibilities, reach new or wider audiences and markets, and extend the lifespan of tours, performances and exhibitions in order to help recoup costs. Similarly, mobility is often essential to artists' careers, as many are involved in relatively short-term project based work, which is reflected in the high levels of atypical employment in the sector.[18] For some professionals it is literally a permanent feature of their work (circus, or street artists, classical music and opera performers); for others it is a frequent feature of their work (such as freelance professionals, particularly in fields such as dance, experimental art or pop music).[19]

The interim evaluation and Green Paper consultation indicate that the greatest obstacle to mobility was financial. The feasibility study on "Information systems to support the mobility of artists and other professionals in the culture field"[20] highlights also the administrative/regulatory difficulties faced by artists, which were reported to be particularly acute for third country participants in the case of the interim evaluation. Studies and advocacy by the cultural sector, including the pilot project on artist mobility voted by the European Parliament for 2008 and which financed the above study, have repeatedly stressed the administrative/regulatory obstacles. Whilst a future programme can assist with the financial obstacles and may be able to help with capacity-building to help the sector deal with the regulatory obstacles, it cannot address the administrative or regulatory obstacles as such themselves, which must be tackled through other means. However as the interim evaluation indicated that most project participants found cost, rather than administrative obstacles, to be the main difficulty, this suggests that the programme has benefits in this regard for individual artists/cultural professionals as the projects are run by organisations with some experience in dealing with these matters.

The low level of circulation of non-national European works also **limits consumer choice and access to European music, literature, fine art, and heritage**. Recent research provides evidence on the consumption of popular culture in European countries which shows that there is a limited circulation of non-national and non-British European works within Europe and the strong preference for domestic and Anglo-American popular culture.[21] For example, the 2011

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18 Cultural statistics, Eurostat pocketbooks, 2011 edition, for example, 25% of cultural workers have temporary jobs compared with 19% in total employment, at EU 27 level, the share of people working at home was twice as high in cultural sectors (26%) than in total employment. Holding multiple jobs was also more frequent in the cultural sectors (6%), than in total employment (4%).

19 Mobility Matters, op.cit.

20 Study undertaken for the European Commission by ECOTEC consulting in 2009 to implement a European Parliament pilot project on artist mobility voted for 2008, http://ec.europa.eu/culture/key-documents/information-system-for-artist-mobility_en.htm.

21 Fligstein N. (2008), "Euroclash: the European Union, European identity, and the future of Europe", Oxford University Press: For example, an analysis of sales of the top songs in 10 European countries (AT, BE, DE, ES, FR, IE, IT, NL, SE, UK) shows that in all countries except Austria and Sweden, national and Anglo-American music account for at least 8 of the top ten songs. In Europe's largest countries (BE, FR, DE, IT, ES, UK) national songs are the most popular, followed by US songs, while in smaller countries (AT, IE, NL, SE), US songs are even more widely sold than national ones. Similarly, Frédéric Martel confirms the tendency for European audiences to favour either national cultural works or mainstream, primarily Anglo-Saxon, works ("Mainstream: Enquête sur cette culture qui plait à tout le monde", Flammarion, 2020).

edition of The Recording Industry in Numbers, the International Federation of the Phonographic Industry (IFPI)[22] stresses the importance of local repertoire for many important markets worldwide. It demonstrates that music from local artists accounts for 81% of the industry's physical format revenues in Japan, 74% in India, 72% in South Korea, 59% in Brazil, 43% in Mexico and 52% in Italy. However, as Fligstein points out, under the right conditions European popular music does cross borders and can lead to Europe-wide and international success.

There is further evidence concerning this phenomenon in relation to the publication of translated works in Europe[23], where the spread is uneven between countries, source languages and target languages. Translation is very much a 'one way street' with translations mainly taking place from dominant languages, such as English, French and German into less dominant ones.[24] Together English, French and German represented the source languages for 78.14% of all translations over the 1979-2006 period. This trend is confirmed by the experience of the literary translation strand of the **current programme**, in which 52% of all translations are made from works originally published in English, French and German. It is worth noting that none of the other source languages was represented in a significantly high proportion. In terms of target languages, three – Bulgarian, Hungarian and Slovene – stand out. 32.5% of all translations in the programme were made into these three languages.

This low level of knowledge of other European cultures and lack of availability of foreign works is reflected in the Eurobarometer survey on cultural values within Europe, published in 2007, which shows that only a minority of European people access foreign cultural products, with only 19% of European people watching foreign language TV/movies and 7% reading foreign language books.[25]

This is a problem in terms of cultural diversity because people are unable to fully benefit from the cultural and social value that European cultural works convey, especially with regard to building social cohesion and inter-cultural understanding. It also has negative economic consequences since it reduces potential revenues.

The recommendations of the civil society platform "Access to culture" highlights the importance of access to culture for all. Those of the OMC working group on developing synergies with education, stress a range of possible measures, including the need to include artistic and cultural education in a transversal manner in EU programmes, the introduction of an obligation for heritage sites receiving public funding to have education departments, the use of EU funding programmes to encourage cultural institutions to expand their use of media, in particular online media, by providing access to complementary cultural and educational resources and to support the exchange of practices. The input from stakeholders shows that many address the question of access to culture from an essentially rights based

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22 Recording Industry in Numbers 2011, IFPI

23 UNESCO Index Translation.

24 Research by the European Council of Literary Translators Associations (CEATL) demonstrates that, in general, the proportion of publications represented by translations is inversely correlated with the size of the country's population and of its publishing sector. For example, the proportion of publications represented by translated books is highest in Denmark (60%), Croatia and Finland (both 50%) and lowest in the United Kingdom, the Germanophone countries collectively (Austria 5%, Germany 9%) and France (14%). The Diversity Report 2008 confirms the strong predominance of English as a source language for translations, which rose steadily from 40% to over 60% between 1979-2006, reaching a ceiling of around 60% in the mid-1990s at which level it has remained.

25 http://ec.europa.eu/dgs/eucation.culture/pdf/culture/baometer.en.pdf.

perspective, while others consider it primarily from the perspective of mainstreaming into education systems. More economically minded stakeholders talk in terms of new business models. The Commission feels that all these dimensions are important, and that EU support can have a particularly interesting role to play in encouraging cultural organisations to develop "audience-building" strategies which encompass both a social outreach and educational role, as well as an economic dimension due to the fact that new and larger audiences can generate new revenue streams and contribute to the emergence of new business models.

The **current programme** already helps to some extent to address this first problem, as the mobility of cultural professionals and the transnational circulation of works are priorities. However, at present, the ultimate aim of cultural mobility and circulation in the programme is to foster a sense of citizenship. The interim evaluation has indicated that this is not the primary rationale of projects and tends instead to be a by-product. This has the result of introducing a certain degree of randomness in the focus of projects, which dilutes the impact of the programme.

The experience of the **current programme** also suggests that it has helped in addressing the problem of geographical imbalances in mobility flows. On the one hand research on 344 mobility schemes across 35 European countries in the "Mobility Matters" study,[26] indicates a significant imbalance in the number of schemes promoting nationals to engage internationally compared with the smaller number of schemes supporting inward visits of creative people from other countries. This gap in provision perpetuates East-West imbalances (in Europe) and North-South imbalances (globally), which is confirmed by the final report of the OMC expert group on the mobility of artists and cultural professionals. The main challenge identified in many countries is the lack of funds, programmes or infrastructure to receive artists from other countries. The study recommends rectifying the balance of incoming-outgoing schemes in the spirit of commitments made by governments when ratifying the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

On the other hand the interim evaluation indicates that the programme has mostly met expectations in terms of geographical spread. In terms of application rates, the pattern generally shows a satisfactory correlation between participation and country size, with the notable exception of literary translations, where very few applications were received from publishing houses in most of the largest countries. Similarly, leadership of cooperation projects and advocacy networks is undertaken in greater proportion by organisations from the EU-15 Member States, reflecting the greater experience of project coordination and capacity available in those Member States, and the potential need for capacity-building in some other countries. However when overall participation – including co-organisers – is taken into account, the picture is far more balanced, demonstrating the benefits of the solidarity mechanism inherent in the cooperation projects and networks and suggests that EU support can contribute to addressing the geographical imbalances identified above. Concerning literary translation, the interim evaluation recommends considering ways in which more translations can be encouraged out of under-represented languages (particularly those in new Member States) into more dominant ones which often serve as pivot languages for further translations and would therefore make a valuable contribution to promoting cultural and linguistic diversity. It also recommends giving consideration to other initiatives to help stimulate the translation of literature. Overall, this highlights the valuable role of the

[26] Mobility Matters, op. cit.

programme in helping to address geographical imbalances, even if they continue to be a prominent reality.

2.4.2. *Problem 2: the impact of globalisation and the digital shift on the cultural sector and the need for the sector to develop its capacity to adjust to these challenges*

The second challenge relates to the **impact of globalisation and the digital shift**. In certain cultural and creative fields (such as music, literature and fine art) a trend is emerging showing that a limited number of major players account for a large part of global sales[27]. Growing concentration of supply poses a threat to cultural and linguistic diversity as it limits the possibility of small independent players to access the international market and reach the wider European public. This is due partly to the costs of developing on-line platforms, but also the preference of ICT providers to negotiate with a limited number of large companies (e.g. in the music and publishing and book retail sectors). However in sectors such as literature, music, theatre and fine art, it is often small, independent operators that are the most committed to developing and promoting original talent, both nationally and internationally. [28]

Responses to the Green Paper highlight the need to develop new business models and the potential for growth in taking advantage of digital technologies and peer learning to acquire the necessary new skills. The study on 'The entrepreneurial dimension of the cultural and creative industries' points out that the digital shift is not only affecting the business models companies need to develop in order to adapt to changing consumer demands, it also requires them to be sufficiently flexible and alert regarding the newest changes and opportunities. This is especially challenging for small companies. The study indicates that 81% of these companies employ less than 10 people, with 60% of the sector consisting of companies employing between 1-3 people. These micro-companies are strongly reliant on the sale of original works and on resale rights. However, the digital shift is making it increasingly difficult for these companies to control their rights and linked remuneration. Besides legal protection there is thus a need for easily accessible information on ways to ensure remuneration when protected works are used by others in order to boost investment in artists and creation and stimulate employment. The study gives the example of the role international networks can play in providing advice and services to small companies in order to protect their rights and stimulate their earning potential.

Such networks can respond to many challenges stemming from the digital shift which is bringing about a change in paradigm, having a massive impact on how cultural goods are made, managed, disseminated, accessed, consumed and monetised, changing the value propositions which prevailed in the analogue era. On the one hand, it introduces interesting new possibilities for considerably extending audience reach, new ways of interacting with the public and educational benefits sometimes at relatively low cost. On the other hand, it is requiring the sector to devise entirely new business models and revenue streams, in some cases as a matter of survival,[29] in other cases to optimise opportunities.[30] In short, the sector

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27 Globally the five major record companies (EMI Records, Sony, Vivendi Universal, AOL Time Warner and BMG (all headquartered in the US)) account for up to 90% of sales and 95% of radio airtime and the top 100 charts.

28 For example, in the music sector, IMPALA (Independent Music Companies Association) estimates that 80% of Europe's new releases are accounted for by SMEs.

29 IMPALA reports that thousands of cultural SMEs are in difficulty, as a result of the digital market, which is leading to a dramatic fall in their revenues and the loss of many jobs for companies, despite the

will need to alter its past mono-dimensional tendency to focus on the provision of access to an object/work/collection from the “provider’s” perspective, towards a more multi-dimensional, process-oriented focus on the audience/user/consumer and the generation of authenticity and experience for them. This means that cultural production will need to pay more attention to demand side issues including by being far more interactive in the future, with greater engagement with audiences and potential audiences throughout the creative process, both upstream and downstream of it. [31] It also requires new initiatives to build audiences through developing cultural and media literacy skills. Recent statistics on cultural participation demonstrate the considerable potential for growth in this area, particularly among people with lower educational attainment and lower incomes.[32] They also suggest that when people spend on culture their consumption patterns are fairly resilient, tending to make cuts in other areas first.[33]

This change and the continually evolving technology **requires a massive adjustment across Europe by much of the cultural and creative sectors and the acquisition of new knowhow** - which is currently very limited and dispersed - in terms of how to promote cultural works and engage with new audiences in the digital age. It necessitates new competences, such as understanding of new business models and revenue streams, including marketing and audience-building skills, up-to-date ICT knowhow, and better knowledge of issues such as copyright. It also requires the sector to think in terms of developing new types of strategic partnerships with operators in different sectors, for example, new public-private partnerships with ICT, retail, the media. Innovative practices are of course emerging in some Member States but progress is slow and piecemeal, with **knowhow across Europe being patchy and fragmented**. The sector would therefore benefit from networking, exchange of practice and peer learning which would accelerate progress as well as bringing economies of scale by pooling expertise across countries at a European level.

The flexibility of the **current programme** means that some projects may already tackle these challenges and there are certainly examples of projects fostering audience-building or dealing with media art and digital shift related issues. However at present the lack of focus in the

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fact that music consumption has never been so high. The problem is that digital market revenues are too low due to illegal availability.

30 For example, digitisation enables theatre plays and operas to be web-streamed and shown in cinemas and on large outdoor screens in other cities and abroad, similarly it enables museum collections to reach new, including foreign audiences, rather than only the visitors they are able to physically accommodate within their buildings. On-line platforms for music and literature also have the potential to extend access to new repertoire and works.

31 See for example the study, "Business Model Innovation Cultural Heritage", Den Foundation, Knowledgeland, the Netherlands Ministry of Education, Culture and Science (2010); “Digital audiences: Engagement with arts and culture online”, MTM London for the Arts Council England, 24.11.2010; “Arts Funding, Austerity and the Big Society: Remaking the case for the arts”, by John Knell and Matthew Taylor, Royal Society of Arts, Essay 4, February 2011.

32 "Cultural statistics" op.cit. For example, see the figures on frequency of attending live performances in the last 12 months, whereby well over half the EU population did not attend a single performance, and the percentage of persons having attended a live performance at least once in the last 12 months by gender, age group and educational attainment as well as by income level. Similarly, the statistics show a considerable growth in the potential for more visits to cultural sites, in view of the fact that over 50% of the population have not visited a single site, and similarly as reflected in the figures in relation to gender and educational attainment. There is also scope for growth in cinema attendance, as well as participation in cultural activities such as taking part in a public performance (singing, dancing, acting or music), or in artistic activities (painting, drawing, sculpture, computer graphics, etc).

33 "Cultural statistics" op.cit. see figure 8.31.

objectives means that this is very random as no prioritisation is given to this issue, with the result that there is no scale effect across the sectors.

2.4.3. Problem 3: the lack of data for evidence-based policy-making to optimise the effectiveness of cultural policies at European and national level

The third challenge is the **shortage of comparable data** on the cultural sector at European and national levels. This is widely recognised in the sector and flagged up by studies mentioned in annex 1. The need for more data on mobility flows was stressed by the OMC expert group on the mobility of artists and cultural professionals in its recommendations of 2010. Similarly the OMC group on synergies with education highlighted the need for comparative analysis in arts and education.

The shortage of data has consequences for European policy coordination, which can be a useful driver for national policy developments and systemic change at low cost for the EU budget and in full respect of the principle of subsidiarity. Policy cooperation (for example through the OMC) is, however, most effective when underpinned by a strong evidence base and responsive data collection tools. Common methodologies and definitions are currently lacking, as is a joint methodological framework for cultural statistics covering elements such as the CCS, public and private expenditure on culture, market data, cultural participation and the social impact of culture. As the need relates to the comparability of data across countries, this needs support from the European level.

The **current programme** does already enable studies to be funded which have fed into the work of the OMC and Commission policy-making. In addition, a new category of support for "policy support groupings" was created for groupings working on exchange, comparison and consolidation of existing quantitative and qualitative data and evaluation methods, and proposals and recommendations for new evaluation methods linked to the priorities of the European Agenda for Culture, however these rely on a bottom-up approach from the sector and do not necessarily respond to the main identified needs of policy-makers. (The launching of new specific studies or data collection is not covered.) However despite the small funds available for the above, the **current programme** design does not clearly prioritise the need to address the lack of data, and have a targeted approach, nor capacity, to achieve real progress in establishing comparable data, as well as new reliable market data.

2.4.4. Problem 4: difficulties for the CCS in accessing finance

The fourth challenge is related to the difficulties encountered by small cultural and creative sectors, SMEs in accessing finance.[34] While this is a common challenge for SMEs in general, the situation is significantly more difficult for small cultural and creative companies. Firstly, this is due to the intangible nature of many of their assets, such as copyright, which are usually not reflected in accounts (unlike patents). Secondly, unlike other industrial products CCS products are generally not mass-produced. Every book, opera, theatre play, film, and videogame can be seen as a unique prototype and the companies tend to be project-based,

[34] The study on "The Entrepreneurial Dimension of the Cultural and Creative Industries" op.cit, estimates that 80% of cultural and creative enterprises are SME with many sole traders or micro SME employing only a handful of people.

whereas investment often needs to be longer-term to become profitable.[35] Thirdly, investment-readiness in the sector is extremely low, meaning that cultural and creative entrepreneurs often lack the business skills to present their projects to financial institutions. This is confirmed by the study on "The entrepreneurial dimension of the cultural and creative industries"[36] which carried out two surveys with 670 respondents, the feedback to the Green Paper, the feedback of the stakeholder platform on the cultural and creative industries and the recommendations of the OMC group on the cultural and creative industries. As a consequence financial institutions often fail to understand the risk profile associated with this sector and its specific characteristics and are not subsequently ready to invest in building up the expertise required. There is therefore substantial difficulty for these small under-capitalized enterprises to finance their activities, grow and maintain their competitiveness. The impact assessment for the CCS financial instrument estimates a funding gap for these SMEs of some €2.8 to €4.8 billion. The problem is more acute in some Member States than in others as there are very strong imbalances in the expertise developed by financial institutions with good practices only to be found in a very limited number of countries.

The difficulties in accessing finance is a problem which is not at all addressed by the **current programme** and the interim evaluation indicates that very few private companies have participated, other than under the literary translation strand which is specifically targeted at publishing houses. The reasons are not entirely clear, but are in all likelihood linked to the formulation of the objectives which may not have an immediate resonance for them, as well as the requirements of grants, which must not generate a profit and the need in most instances to find foreign partners. The publishing and popular music sectors have been most vocal in calling for support which is better adapted to their businesses.

2.5. Who is affected?

The groups affected by these problems most directly are:

- The users of cultural products (consumers, audience, the general public), who rely on supply of cultural and creative works from either national operators or a limited number of dominant foreign countries;

- The developers of creative and cultural works (authors, play writers, translators, choreographers, designers, architects, song writers, performers, actors, musicians, dancers, singers, theatre companies, opera houses, ballets, orchestras, publishers, audiovisual and interdisciplinary organisations, etc), both non-profit-making organisations and SMEs, many of which do not have the capacity to operate on a transnational level and thereby optimise potential economies of scale and better recoup costs;

- The providers of access to culture (exhibitors/disseminators of creative and cultural works such as galleries, museums, theatres, concert halls, festival, SMEs) and organisers of non-commercial cultural events, who – because of the lack of

[35] For example, regarding the publishing sector, it is estimated that 1 out of 10 books is profitable, 2 or 3 break even and the rest lose money at the time of first publication. In the theatre sector, it is also estimated that only 1 in 10 plays makes a proper recoupment of its costs.

[36] The study on "The Entrepreneurial Dimension of the Cultural and Creative Industries" op. cit., see the Executive Summary.

transnational networks and circulation - generally depend on national artists or operators for the supply of works;

- Cities and regions across Europe, whose focus is on support for local activities and the international potential is often untapped, or which may lack local cultural facilities and opportunities for their citizens;

- Cultural policy-makers, who at this moment lack sufficient information and data for evidence based policy development.

Further groups are affected more indirectly, including television and radio broadcasters, newspapers, magazines, internet providers, and organisations and companies providing services in the field of tourism.

2.6. Baseline trends: how would the problem evolve, all things being equal?

Naturally it is difficult to predict developments. However it is reasonable to assume that if the **current programme** were maintained, the positive benefits identified in the interim evaluation would continue. In particular the unique role it plays in stimulating cross-border cooperation, including strong and enduring partnerships and their capacity to engage in further transnational cooperation. It is also valuable in promoting peer learning and the professionalization of the sector and increasing the access of European citizens to European works from other countries. These all contribute to sustainable growth and quality jobs. The report also underlines that the programme plays an important role in respecting Europe's cultural and linguistic diversity.

As indicated above, the interim evaluation indicated that project promoters currently pursue a range of parallel objectives to the formal ones in the programme due to the fact that the latter do not currently reflect the real reason why cultural operators seek to work internationally. It concluded that the objectives should be revised in the light of recent developments, the real challenges facing the sector and the new policy framework agreed after the adoption of the **current programme**, namely Europe 2020 and the European Agenda for Culture. On the basis of this evaluation and existing knowledge of the programme, it is reasonable to assume that regarding economic impacts, the Programme would continue to provide funding to support artists to develop international careers, to strengthen cultural organisations to operate trans-nationally and foster cultural and linguistic diversity. However, the current challenges would not be addressed in a focused way, including the problem of market fragmentation, and would not respond to the need to help the sector adjust to global developments and the digital shift by developing new audience-building strategies and new business models. This would not optimise the sector’s adaptation and have repercussions for its ability to develop more cultural and creative content for digital distribution and extend audience reach, negatively impacting on competitiveness. The programme would therefore fail to make use of the sector’s potential to contribute to smart, sustainable and inclusive growth and the aims of the Digital Agenda. Some projects might choose to address these challenges, but there would be no significant scale effect. Instead the programme would continue to produce benefits for the participants in projects, but no strategic effect on the sector. Although transnational circulation of works would be supported, the design of the support would not optimise the potential benefits, including the support for literary translation, where the interim evaluation indicates ways of improving its effectiveness. The access to finance needs of the CCS would not be supported and major global, including non-European companies, would continue to gain an increasing advantage.

Regarding social impacts, the programme would be expected to continue to have benefits. The interim evaluation indicates that two out of three projects sought to promote equality or equity, 51% reported that they had specifically promoted opportunities for the disadvantaged, some 31% had targeted people suffering socio-economic disadvantage, 25% ethnic minorities, and 25% people with a disability. Furthermore, the report indicated that participants in projects get personal benefits in terms of professional development and many of the partnerships endure. However, the lack of focus of the programme would dissipate the potential social benefits in terms of the full contribution the programme could make to cultural and linguistic diversity, inter-cultural understanding, employment, and broader access to culture.

Under the baseline, the policy process linked to the European Agenda for Culture would continue, but there would be no resources to properly tackle the data shortages confronting the sector. Regarding likely developments at national level, the interim evaluation highlights that the impact of the crisis on international cultural cooperation cannot yet be fully understood, as there is a time lag before public funding cuts at the national level, or reductions in private sponsorship, begin to affect the capacity of project promoters to find matching national funding. However the initial indications are that budget cuts are taking place,[37] which raises new challenges for cultural operators who wish to engage in international cooperation and highlights the importance of EU support.

2.7. Justification for EU intervention

2.7.1. Does the EU have the right to act?

The EU clearly has the legal competence to act. Article 3(3) of the Treaty on European Union recognises that the internal market and economic growth must be accompanied by respect for the EU's cultural and linguistic diversity. Article 167 of the Treaty on the Functioning of the European Union specifies the EU's competences in the cultural field in greater detail, whereby the EU can support and supplement Member State action. The EU Charter for Fundamental Rights (Article 22) states that the Union shall respect cultural and linguistic diversity. Finally, the Union's mandate is recognised in international law, in the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire*.

2.7.2. European added value / necessity test of the new EU initiative

There is clear European added value to the action proposed compared to Member States acting alone. In addition to the complementarities to other EU policies and programmes outlined in section 3.1, the new initiative would have the following transnational benefits.

- First, the sector is facing similar challenges regarding adaptation to the digital shift across Europe and EU support can incentivise and stimulate long-term systemic effects on the sector in order to adapt to global challenges more rapidly. This is because this is an area where knowledge and knowhow is patchy, fragmented and geographically dispersed, and international cooperation can therefore bring great

[37] See for example, "The economic crisis and the prospects for art and culture in Europe", by SICA, Dutch Centre for International Activities, http://www.sica.nl/sites/default/files/en_crisis_and_prospects_for_art_and_culture_in_europe_oct2010.pdf

benefits by incentivising adjustment, facilitating the pooling of knowledge and accelerated learning, at the same time as achieving greater critical mass and economies of scale.

- Second, with regard to the circulation of works and artists, there is a clear transnational dimension. EU support can foster circulation in a more balanced way than national funding schemes which tend to have national cultural diplomacy agendas. EU funding provides artists with professional pathways by giving them the opportunity to perform in international networks of national concert halls, festivals, international orchestras, residences, tours and exhibitions, which enhance their skills, knowhow and employability (rather similar to the role Erasmus plays for university students). Many of these European networks and their programmes have acquired a certain quality or brand value for the national operators. As proved by the **current programme**, EU funding also helps to address geographical imbalances in Europe by creating opportunities for artists and organisations in countries with weaker capacity to take part in projects (and thereby foster their skills and careers) led by organisations in other countries. In this way the programme serves an important solidarity function.

- Third, the way it supports policy processes, including the implementation of the OMC, boosting progress towards common objectives and promoting exchange of knowledge and good practices among national policy-makers is important. This stimulates accelerated learning, thereby benefiting the formulation of better national policies and contributing to systemic change. There is also clear added value and economies of scale for policy support by enabling comparative European research in the cultural field.

- Fourth, a shared CCS financial instrument would have greater critical mass and economies of scale compared to a large number of dispersed schemes, which would enable more funds to be focused on financial guarantees than administration, fostering valuable networking and peer learning and having a greater systemic impact on the capacity of financial institutions across Europe to understand better CCS assets and risks.

- Fifth, EU funding would bring added value in terms of leverage effect on additional funds. With regard to grants, EU co-funding brings in additional funds at national level (at present at least 50% for most of the Culture Programme). It also ensures commitment and buy-in among beneficiaries. The **European Capitals of Culture** also have a strong leverage effect, with the EU title and small amount of funding (€1.5 million per Capital) triggering national investments in recent years of between between €15 and €100 million. Furthermore, an estimated 10-15 fold leverage effect could be generated by a joint CCS financial instrument.

2.7.3. Complementarity to other EU policies and instruments

The programme will be entirely complementary to other EU instruments. Along with MEDIA (which is targeted at a different set of beneficiaries in the audiovisual industry), no other EU programme promotes the transnational mobility of artists/cultural professionals, nor the circulation of works. Similarly regarding linguistic diversity, while Culture supports literary translation, MEDIA subtitling and dubbing of foreign films, the Lifelong Learning Programme promotes language learning. Regarding capacity-building, the programme does not aim at formal or informal learning which is covered by the education, training and youth programmes, but focuses on fostering peer and accelerated learning among cultural organisations on topics where the sector faces key challenges.

The programme will complement EU culture policy by reaching cultural operators directly and thereby helping bring about systemic change in terms of EU policy priorities.

In contrast to other EU funding such as the ERDF, ESF, Competitiveness and Innovation Framework Programme (CIP), the programme will specifically target the needs of the cultural and creative sectors with a wish to operate beyond national borders and with a strong link to the promotion of cultural and linguistic diversity. Indeed, the current ERDF/ESF support is for preservation, rehabilitation and development of cultural heritage, development of cultural infrastructure, urban regeneration, support to tourism, promotion of entrepreneurship, support to ICT based cultural services and the improvement of human capital, with a very strong focus on innovation and regional or local development. Furthermore the support for policy development would have benefits for knowledge sharing in the development of cohesion policies by Member States.

The CIP provides access to funding for SMEs (through guarantee and equity) and the up-take of digital technologies and contents, but these are generic tools, without any dissemination of sector-specific expertise. The new financial instrument to strengthen the financial capacity of Europe's cultural and creative sectors would be focused on the specific needs of these sectors, in order to foster greater understanding of assessing risks in these sectors by financial institutions and stimulating networking between them. A more elaborated assessment is described in the impact assessment report for CCS financial instrument.

Policy actions related to digitisation and content aggregation around Europeana (the European Digital Library) are implemented within the Digital Agenda for Europe.

International funding under the culture strand will help the European cultural sector to operate internationally and be a projection of the objectives of the internal programme. In contrast to other EU instruments aimed at cultural cooperation with third countries, it is a multilateral, not bilateral tool, and does not target development cooperation in third countries.[38]

[38] For example, the cultural strand of **"Investing in People"** (€50 million over 2007-2013) supports culture as a significant area of human and social development which contributes to identity-building and self-esteem, fosters economic growth and social cohesion, and helps to promote political participation and ownership. The **Euromed Heritage IV** (€17 million for 2008-2012) aims to facilitate the appropriation by populations of their cultural heritage, favouring access to education and knowledge of cultural heritage. The **Eastern Partnership Culture** programme (€12 million for 2010-2013) contributes to strengthening regional cultural links and dialogue within the ENP East region, and between the EU and ENP Eastern countries' cultural networks and actors. The **EU-ACP Support Programme to cultural industries in ACP countries** (€2.3 million for 2008-2010) promotes an environment encouraging creation, exchanges, independence and viability of the cultural sector in the ACP States, while adding value to their cultural diversity. The EU Enlargement policy supports bilateral and multi-beneficiary activities in the field of culture, which make a fundamental contribution to the promotion of European values and intercultural dialogue. National and multi-beneficiary projects funded under the Instrument for Pre-accession Assistance (IPA) in the field of culture, mainly cultural heritage, amounted to approximately €37 million from 2007-2011. Moreover, candidate and potential candidates are undertaking actions funded under IPA preparing them for participation in the Culture programme (after the signing of both the Framework Agreement and the Memorandum of Understanding with the EU).

3. OBJECTIVES

As recommended by the interim evaluation, responses to the public consultation and the Green Paper, the new objectives of the culture strand will be aligned with the aims of Europe 2020 and the European Agenda for Culture and there will be more precision about the programme's priorities to supplement the specific objectives, something which does not exist at present. Clearer guidance than at present will also be provided in the future calls for proposals in order to prioritise projects which address the problems identified in chapter 2.

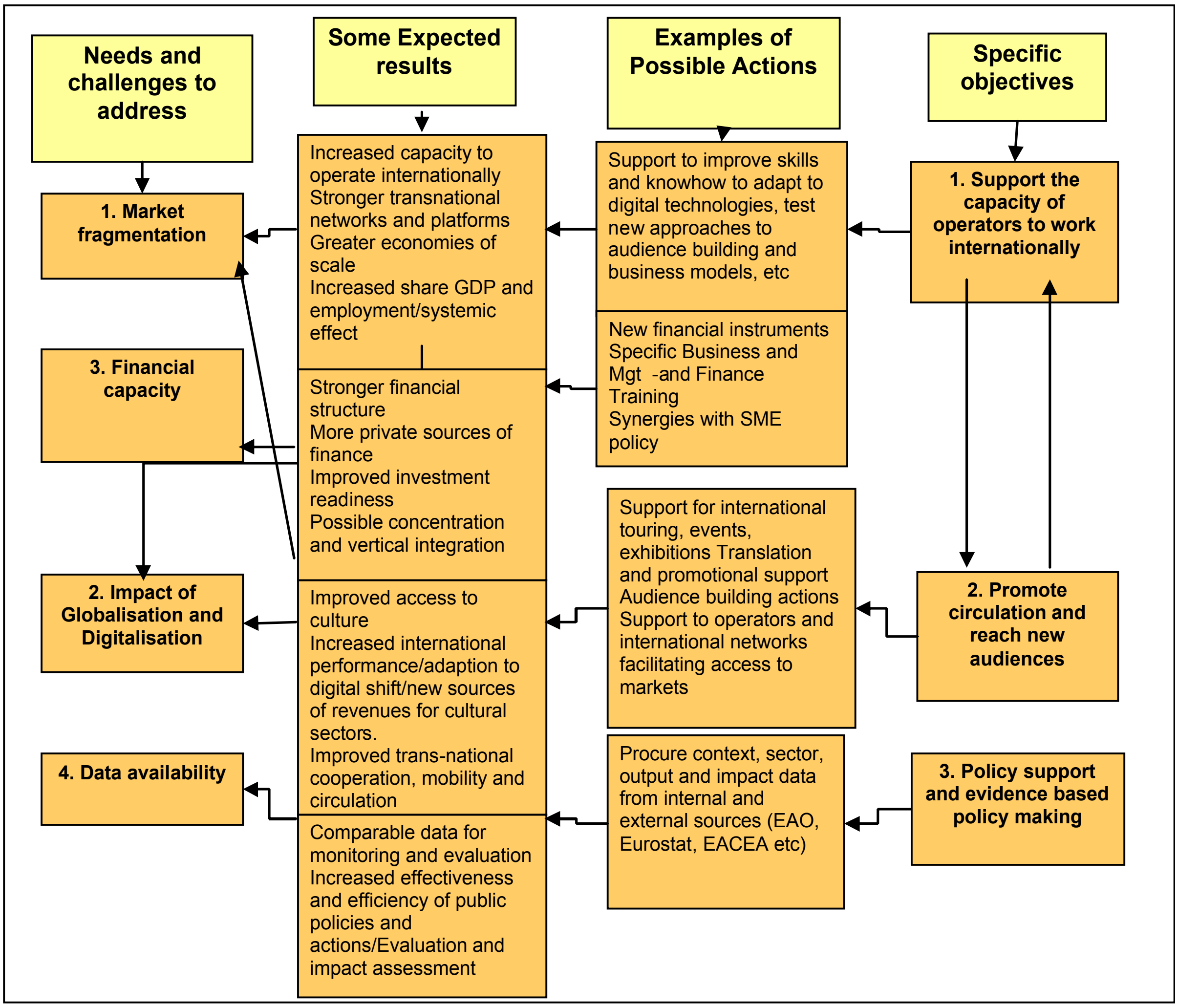
The specific objective to support the capacity of the European cultural and creative sectors to operate transnationally addresses the challenge of globalisation and the adaptation of the sector to the digital shift. Promotion of the transnational circulation of cultural and creative works and operators and reaching new audiences addresses the problem of fragmentation, which results in limited circulation of works and artists and limited choice for consumers. Both of these have consequences for cultural and linguistic diversity and the competitiveness of the sector, which are reflected in the general objectives. The third specific objective, the fostering of policy development, targets the shortage of data. The fourth specific objective – to improve the financial capacity of the sector – will be addressed primarily through the new financial instrument covered by a separate impact assessment. The three levels of objectives for the Culture strand are indicated in table 3.

Table 3: General and specific objectives and priorities	
General objective	To foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.
Specific objectives	1. Support the capacity of the European cultural and creative sectors to operate transnationally; 2. Promote the transnational circulation of cultural and creative works and operators and reach new audiences both within Europe and beyond; 3. Foster policy development, innovation, audience building and new business models through transnational policy cooperation 4. Strengthen the financial capacity of the cultural and creative sectors[39]
Priorities	Specific objective 1: Support the capacity of the European cultural and creative sectors to operate transnationally: • Providing cultural operators with skills and knowhow to facilitate adjustment to the digital shift (audience-building strategies, new business models) through mutual peer learning; • Support artists/cultural professionals to internationalise their careers; • Strengthened European and international networks of cultural professionals to facilitate access to new opportunities and markets. Specific objective 2: Promote the transnational circulation of cultural and creative works and operators and reach new audiences in Europe and beyond: • Support international touring, events and exhibitions; • Support literary translation, including promotion packages; • Support for audience-building as a means of raising curiosity of the public and particularly young people and building a long-term audience for European cultural works. Specific objective 3: Foster policy development, innovation, audience building and new business models through transnational policy cooperation • Support for studies, evaluations, policy analysis and statistical surveys; • Support transnational exchange of good practices and knowhow, peer-learning activities and networking related to policy development, including cultural and media literacy; • Support the testing of new and cross-sectoral approaches to funding, distributing, and monetising creation; • Support conferences, seminars and policy dialogue; • Support a network of Creative Europe Desks.

[39] This objective will be addressed through a new financial instrument that will facilitate access to financing for the CCSs. A full analysis is provided in the separate IA on Cultural and Creative Sector Financial Instrument.

Problem 4 (see section 2.2.4) – the difficulties of access to finance – will also need to be addressed through a future EU programme for culture. This problem is considered within the options assessed in this impact assessment. One of the options (option 3, Creative Europe framework programme) foresees the possibility of developing a cross-sectoral strand including a financial facility, which would facilitate access to private sources of finance, technical assistance and specific training, improved investment readiness and capacity to assess cultural and creative projects. However, a separate impact assessment has been carried out for this aspect of the future programme, so it is only dealt with briefly here.

To help to clarify the intervention logic, the following diagram depicts the inter-linkages between the identified needs, the specific objectives, and gives some expected results and examples of possible action.



4. POLICY OPTIONS

This impact assessment considered 3 options in order to tackle the identified problems and objectives. The options considered are summarised below.

Table 4: Policy options

Option	Summary
"No change" (baseline)	The "no change" option. Continuation of the Culture Programme.
"Revised programme"	Redesigning the programme to take account of the recommendations in the interim evaluation and expected needs in the cultural and creative sectors.
"Synergies and new framework programme"	This involves both redesigning the programme as described under option 2 and changing it so that synergies between the MEDIA and Culture programmes are exploited.

4.1. Criteria applied for pre-selection of options to undergo further analysis

All options raised by stakeholders, external experts, institutions etc have been collected to undergo a first screening. Some have been discarded without further analysis; others are examined in the context of this exercise.

Before examining those options, it is important to note that some complementary initiatives need to be put in place in view of optimising the effectiveness and the efficiency of the new programme in its endeavour to achieve the objectives, whatever option is selected. Indeed, evaluation results of the Culture Programme have systematically identified the need to simplify some elements of the Programme and **options have been assessed also in the light of the simplification and streamlining opportunities they offer**. In particular, structuring actions and systemic impact have been given higher priority. Also some policy support measures need to be introduced.

A number of **simplification opportunities** have been identified both on a strategic and operational level. While operational simplifications described in the efficiency section below will be implemented in all cases, the following **strategic simplifications** opportunities have been used to select those options to be retained for further analysis.

- Focus on structuring actions with a maximum systemic impact. For example, by discontinuing or modifying those elements in the **current programme** that do not sufficiently contribute to scale effects. This would bring a strong focus on aim achievement into the programme and also allow for a reduction in the number of calls for proposals. (For example larger funding packages for publishing houses to incorporate promotional support, would produce a longer term impact on the company robustness and viability rather than just on one of its projects.);

- Create a financial instrument to progressively increase access to private funding (for some categories of players / some types of projects) and improve the systemic impact on the sector (see previous point);
- Increase the leverage of EU budget, with such tools as the Cultural and Creative Sector Financial Instrument;
- Streamlining of the international dimension previously in a separate action line in the programme within the Culture strand;
- Cross-cutting value chains approach by supporting projects with high impact throughout the value chains, from building capacity to mobility and circulation;
- Transversal projects covering several segments and players of different sectors to achieve a knock-on effect and have a broader impact
- Support measures that can increase sector and market reach through a transnational approach
- Coordinated approach on all sources of content (music, audiovisual, cross-media, publishing etc). (A common approach to creative and cultural sectors is proposed under option 3.)

4.2. Discarded options

All options raised by stakeholders, external experts, institutions, etc. were collected and screened. The option proposing the "Merging the Culture, MEDIA and MEDIA Mundus Programmes" into a single transversal programme to cover the cultural and creative sectors as a whole with common calls for proposals was discarded. This is because although the sectors face similar problems due to the particular characteristics of the cultural and creative sectors and seek common goals, the various sub-sectors and players are too heterogeneous to permit homogenised instruments. This heterogeneity is explained in section 2.2. This means that generic calls and actions for the entire programme would not be adapted to the needs of the different actors and would lack clarity and generate confusion.

In considering the revised programme option, a sub-option with different windows for each of the different cultural sub-sectors was discarded. The original approach to cultural funding by the EU was partially sectoral, with the Ariane programme for the book and reading sector (1997-1999) and Raphael for cultural heritage (1997-1999). In contrast, the Culture 2000 programme adopted an interdisciplinary approach which was continued with the **current programme**. As mentioned in section 2.2 the interim evaluation confirms the benefits of an interdisciplinary approach due to the reality of developments in the cultural sector, including the impact of digitisation, in which boundaries between sectors are becoming more fluid and cross-sectoral experimentation is common. The European Competitiveness Report also confirms that interdisciplinarity will play a key role in pushing forward research and policymaking in the area of the creative industries. The annual activity reports on the programme[40] confirm a good balance between sub-sectors suggesting that the current approach works well. It should also be added that the limited budget would not permit the sub-sectoral approach to work effectively.

Another discarded sub-option was to focus either exclusively on capacity-building or on the circulation of artists/cultural operators and their works. This is due to experience of the

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[40] The annual Culture Programme Activity Reports can be found at: http://ec.europa.eu/culture/our-programmes-and-actions/library-of-programme-documents_en.htm

current programme in which both elements are highly important components of projects, as confirmed by the interim evaluation.

Finally, the discontinuation of EU funding was not considered as an option, due to the fact that the Commission's proposal for the Multi-annual Financial Framework for 2014-2020 has taken the clear decision to continue EU support for the cultural and creative sectors.

4.3. Option 1 "No Change"

Option 1: "No change" (baseline):

The new Programme follows the same objectives and includes the same action lines as the current Culture Programme (see section 2.3).

4.4. Option 2 "Revised Programme"

Option 2: "Revised programme":

A revised programme would address the weaknesses of the existing one drawing on direct experience of managing the programme, the findings of the interim evaluation and stakeholder feedback, including the recommendations of the stakeholder platforms, studies and research, and the Cultural Contact Points who are in direct contact with applicants. Naturally, however, the Commission has had to assess these numerous sources critically, in order to strike the appropriate balance between the needs of the sector, Europe 2020 goals and activities with the most European added value. The aim of the new Culture strand would be to achieve a more targeted impact on a limited number of clear priorities and a greater scale effect as a consequence. This would be done through more relevant and better focused objectives and clearer indication in the calls for proposals of our priorities (see chapter 3). The number of calls for proposals, instruments, and small grants would also be reduced in order to prioritise projects with a greater structuring effect. This would include the introduction of a new instrument – European platforms - to stimulate a scale effect with regard to the circulation objective of the programme.

The measures which would be discontinued or modified are the following:

- **International cooperation** under the programme would be redesigned. The separate call for proposals with a different country focus each year - which is virtually identical to the two year cooperation projects - would be discontinued as this approach lacks critical mass due to the shifting focus and is not able to adapt to newly emerging priorities. In addition, from a practical perspective, building solid international partnerships takes time, which is made difficult by the changing focus. In a new programme the participation of third country operators would instead be mainstreamed within the other cooperation projects, thereby reducing the number of calls and reflecting the natural international preference of the sector more appropriately.[41] The current ceiling for third country participants (15%) would need to be raised.

- The dedicated strand for **festivals** would be discontinued as it has proved confusing for the sector and has proved to be over-subscribed over the last two years, partly at

[41] Interim Evaluation of the Culture Programme 2007-2013, op.cit.

least due to the absence of an obligation to have European partners. However festivals are clearly important cultural events, with a massive public outreach and would continue to be eligible under cooperation projects.

- The current **advocacy networks** would be open simply to networks fostering the goals of the programme rather than to support their advocacy work.

- The support for **literary translation** which has very small grants (€2,000 to €60,000) would continue under a new programme, but the programme would allow larger funding packages for publishing houses to make the support more effective on the one hand, and more administratively efficient on the other. Priority would be given to publishing houses with a clear medium- long-term strategy for promoting European literature and the support would be broadened beyond simply funding translations, to include the translation of readers' reports to assist the selling of rights to foreign publishers (an upstream part of the book chain), some promotional support and international exchanges of editors. This would be expected to result in more larger grants. In addition, at the moment the flow of translations is predominantly into small languages and very little into the dominant, pivot languages (especially EN, FR and DE). A stronger signal would be given to encourage more translation out of small languages into pivot languages, as this can have an exponential impact on further translations and therefore be beneficial for cultural diversity.

- The **operating grants would be** discontinued in favour of project funding as they are complex to manage due to the annual cycle, degressivity rules, and are not sufficiently result-oriented as an instrument.

As already mentioned these measures should allow a reduction in the number of calls for proposals managed by the EACEA to be reduced from 9 to 4 and priority would be given in the criteria to projects with a structuring and systemic effect[42] to avoid the previous fragmentation which diluted the impact of the programme:

- Cooperation projects (with one lot for multi-annual projects and another for 2 year projects);

- European networks;

- European platforms;

- Literary translation.

The new category of European platforms would be aimed at activities by organisations providing a promotional European platform for the development of emerging talent and stimulating the circulation of artists and works, with a systemic and large scale effect. Previous organisations applying under the "Ambassadors" and "Festivals" categories could potentially qualify here.

[42] "Structuring effect" refers to creating "structure" to a sub-sector where actors are currently fragmented and dispersed and unconnected. For example, a network bringing together dispersed actors from a sub-sector across Europe for peer learning which can foster accelerated learning. This can generate economies of scale by bringing together fragmented expertise and knowhow. "Systemic effect" refers to system level changes, for example, a change of national policy, or a permanent change in the activities and priorities of a sector.

The cooperation projects, networks and platforms could address more than one specific and operational objective, reflecting the desire of operators – as seen in the **current programme** – to undertake a range of activities within a single project. This is due to the fact that in many of these sub-sectors the value chain is relatively fluid, for example, concert halls, theatres, operas or festivals which produce works, exhibit them, develop new talent, and run educational programmes, etc. This means that when these sectors engage internationally, they wish to undertake a range of activities at various points of the value chain within a single project (co-production, development of talent, touring, peer learning among artists and professionals (eg managers)), which contrasts with the audiovisual industry, where script-writers, developers, distributors, exhibitors, etc need to be targeted separately. A flexible and fluid approach to the value chain in most of the cultural sub-sectors, would - in addition to being more appropriate for them - be simpler and less bureaucratic, compared to requiring different calls targeted separately on capacity-building and circulation, which would result in the need for promoters to make more than one application (for smaller amounts) whereas in the past they could cover the same activities within a single project. This approach would also reduce the administrative burden on the EACEA by having fewer, larger grants to deal with.

Due to the more segmented nature of the book chain, the literary translation strand would be more targeted, focusing on circulation, and would remain aimed at publishing houses even though the boundaries between publishing and selling may blur in the longer-term with the digital shift.

Whilst it is too early to spell out the award criteria at this stage, the emphasis will be on projects with a clear focus on the programme's priorities, European added value, with long-term structuring and systemic impact, and addressing geographical imbalances. In order to increase the impact of projects, audience-building strategies would be included as a requirement of circulation projects to improve the current criteria on communication which do not include this element.

In addition to the greater structuring effect sought through grants for cultural operators, the new programme will seek to achieve a greater systemic effect through improved support for policy by means of the OMC for culture, which can influence policy priorities at the national (system) level. This would include better support through studies, support for expert networks, work with Eurostat to improve the comparability and reliability of data, and membership of the European Audiovisual Observatory, which would enable better collection of market data.

The geographical scope of the programme would be similar as at present, and would allow participation by third countries in accordance with the necessary principles and agreements, including EFTA countries which are members of EEA; the Swiss Confederation; candidate countries benefiting from a strategy of pre-accession to the EU; countries of the Western Balkans and the countries of the European neighbourhood area. The programme would also be open for bilateral or multilateral cooperation actions targeted at selected countries or regions on the basis of additional appropriations.

4.5. Option 3 "Synergies and new framework programme"

Option 3: "Synergies and new framework programme"

This option assesses the possibility of merging the Culture, MEDIA and MEDIA Mundus Programmes under a common framework, "Creative Europe" Programme. Such a framework programme could build on synergies from the fact that the different sectors face similar challenges, while at the same time keeping distinct strands for Culture and MEDIA. The Culture strand would be virtually identical to the above "Revised programme" option. However, it would be part of a framework with three strands: one for MEDIA for the audiovisual sector, one for culture for the other cultural and creative sectors, and an innovative cross-sectoral strand for all the cultural and creative sectors which would include a financial instrument. Under this scenario, one part of the third cross-sectoral strand would address the third identified problem (shortage of data) and the priorities objectives linked to it in table 3. This would include activities such as transnational exchange of experiences on new business models, peer-learning activities and networking among and between industries, operators and policy-makers; data collection, including membership of the European Audiovisual Observatory; and the testing of new and cross-sectoral business approaches to funding, distributing and monetising creation. The other part – the Culture and Creative Sector Financial Facility – would address the fourth problem (the sector's difficulty in accessing finance).

In practical terms this means that the general and specific objectives (see chapter 3) would be common to all three strands, but there would be variations in the priorities, and separate calls for proposals. This approach would have the advantage of accommodating the value chains in the different cultural sub-sectors appropriately, which, as mentioned in section 4.1, are too heterogeneous to permit homogenised instruments and calls.

As this is the option which has been identified in the Commission's Multi-Annual Financial Framework, the foreseen breakdown is only explained for this option.

The indicative budget split between the programmes would be 30% for the culture strand, 55% for MEDIA and 15% for the innovative cross-sectoral strand. This reflects previous spending patterns for Culture and MEDIA and high level political commitments which have been made to maintain current levels and to provide space for the entirely new Financial Instrument.

Within the Culture strand the division of funds would be by the four measures indicated in option 2, as well the special actions which are mostly managed by the European Commission. The sub-division would draw on the experience of the **current programme** with some modifications in the light of experience of demand rates, so that the cooperation measures would continue to receive the largest portion of funds. Approximate indicative amounts would 67% for cooperation projects, 7% each to networks and platforms (previously the European cultural bodies category), 9% to literary translations (previously included within the cooperation projects) and 10% to the special actions.

5. ANALYSIS OF IMPACTS

The analysis of impacts is based on the proposed options which were compared to the baseline.

There are uncertainties in relation to the possible development of the problem and it needs to be recalled that there are many other causal factors at work beyond the scope of the programme which could impact either positively or negatively on developments. In addition, the pace of change occurring due to the digital shift is extremely rapid and unpredictable. This requires the future programme to be flexible enough to accommodate the sectors' needs over time. The expectation is, however, that audience demand will continue to have greater impact on developments and the new programme will lay emphasis on this. In addition, other causal factors will impact on growth and jobs in the cultural and creative sectors which are independent of an EU funding programme, such as national policy and national funding support. While EU policy coordination may have some impact on national priorities, as this is an area of strong subsidiarity, many effects will also depend on national choices.

Quantitative estimates are also impossible at this stage due to the widely recognised lack of data to underpin European policy development in this area, which contributes to uncertainty about the current state of the sector and about the evolution of current problems. The stronger emphasis on systematic data collection in the future should help over the longer term to alleviate this shortcoming. Due to these reasons the impact assessment adopts an essentially qualitative approach to analyse the expected impacts of the identified options.

The analysis assesses the impact of each option against the economic, social, environmental and fundamental rights impacts. The impacts looked at the possible impact of support aimed at the circulation of European cultural works, the cultural and creative sector's capacity to operate on an international level and at knowledge sharing aimed at evidence based policy development. These are the areas where the programme can help address the problems described in section 2.2. Table 5 summarises the main areas of economic, social and environmental impact.

Table 5: Summary of the main areas of economic, social and environmental impact

	Areas of economic impact	**Areas of social impact**	**Areas of environmental impact**
The cultural and creative sector's capacity to operate on an international level	Better economic performance of the cultural and creative sectors in terms of new revenue streams and greater profitability Improved capacity of European cultural organisations to work internationally Reduced cost of business for cultural and creative SMEs	More employment in the cultural and creative sectors Better job quality in the cultural and creative sectors Greater mutual understanding and social cohesion due to exposure to more culturally diverse artistic work	Transport requirements (passenger and freight) Energy consumption Use of new digital distribution methods can help reduce the current reliance on physical circulation and mobility Indirect benefits due to the sector's natural role as a communication vector on pressing societal issues
Circulation of European works	Greater choice of European cultural content for consumers New economic opportunities and revenue streams for the cultural sector Better functioning of the internal market	Greater cultural and linguistic diversity Access to culture (digital access/stronger circulation networks) for new audiences and also the disadvantaged (social inclusion)	

Knowledge sharing aimed at evidence based policy development	More comparable data Improved economic performance through better designed national cultural policies	Increased employment, greater mutual understanding and social cohesion through better designed cultural policies at national level	

None of the options has direct impacts on equal opportunities, technological developments, developing countries or public health. However, artists and cultural operators generally have a natural empathy for equal opportunities concerns, so there could be indirect benefits in this regard. Indeed, the interim evaluation shows that without it being explicitly targeted in the programme, a certain number of projects touch upon this theme.

It should be pointed out that the impacts in terms of the environment and fundamental rights should not be overplayed, notwithstanding this they have been assessed.

Through promoting the mobility of cultural operators all options would have an environmental effect, for example due to transport and production processes, but the effects would not be greater than at present. Additionally, this would be counter-balanced under the revised and framework programme by the emphasis on helping the cultural sector adapt to the digital shift, which can enable far greater audiences to be reached without physical travel. Furthermore, the revised and framework programme would continue to have some indirect benefits due to the sector's natural role as a communication vector on pressing societal issues, however this would depend on the projects selected. A certain number of projects already address climate change issues.

Fundamental rights are not explicitly targeted by the **current programme**, but transnational cooperation and exchange in this field can contribute to a greater awareness of and empathy for fundamental rights. As the revised and framework programme options would directly target cultural and linguistic diversity they would have effects in this regard, which can be greater than under the baseline. The overall impact in this regard would be marginally greater under the framework programme (because of transversal elements).

5.1. Option 1 "No change" (the baseline)

Economic impacts

In this scenario, the Programme would continue to provide funding to support artists to develop international careers, to strengthen cultural organisations to operate trans-nationally and foster cultural and linguistic diversity. However, the current challenges identified in section 2.2 would not be addressed in a focused way, and would not sufficiently respond to the need to help the sector adjust to global developments and the digital shift as the programme would not send a clear signal regarding the need to address demand side issues. This would slow down the sector’s adaptation and have repercussions for its ability to improve audience/consumer demand and develop more cultural and creative content for digital distribution, negatively impacting on competitiveness. The programme would therefore fail to make use of the sector’s potential to contribute to smart, sustainable and inclusive growth and the aims of the Digital Agenda. Some projects might choose to address these challenges, but it would be random and there would be no significant scale effect. Instead the programme would be supply orientated, would continue to produce benefits for the participants in projects, but the strategic structuring effect on the sector would be limited. Although transnational circulation of works would be supported, the design of the support would not optimise the potential of new economic opportunities, including those regarding the support for literary translation, where the interim evaluation indicates ways of improving its effectiveness. The access to finance needs of the CCS would not be supported and major global, including non-European companies, would continue to gain an increasing advantage. Knowledge sharing to foster transnational policy development and bring about step changes in policies for the sectors across Europe would be limited.

Social impacts

The positive effects identified in the findings of the interim evaluation (see sections 2.3 and 2.6) would in principle continue, although the results would be random, depending on the bottom up submission of applications. The lack of focus of the programme would dissipate the potential social benefits in terms of the full contribution the programme could make to cultural and linguistic diversity, inter-cultural understanding, employment, and broader access to culture.

Simplification

Even with no change in programme design, further **simplifications** would be introduced, building on those brought in under the **current programme**. That would include a greater use of flat rates, grant decisions, framework partnership agreements, electronic applications and reporting and an electronic portal to reduce the burden for applicants and beneficiaries. However, there would continue to be separate information points, management committees and less use of trans-disciplinary cross-border policy coordination processes, including exchanges of experiences and new, cross-sectoral testing of new business approaches to funding, distributing and monetising creation.

5.2. Option 2 "Revised programme"

The effect of option 2 would be an overall greater focus of the programme's support towards reaching clear objectives linked to the real needs of the sector and the policy priorities set out in the Europe 2020 Strategy, its flagships, the European Agenda for Culture and new strategies for the cultural and creative sectors in many Member States. Compared to the baseline, this option would send a clear signal regarding demand side issues. This would lead to an increased and more diverse offer of European cultural works within the Single Market, resulting in more choice for consumers, and pluralism of content for distribution (both physical and digital), with greater economic and social benefits.

Economic impacts

The programme would strengthen the adaptation of the cultural sector to globalisation and the digital shift and increase transnational trade of cultural works and touring by artists, thereby improving its capacity to operate internationally and contribute to economic growth and employment. This would be done by targeting projects which can promote the knowhow and skills to make full use of the potential the digital shift offers to reach larger audiences, develop new business models and to tap into new revenue streams (thereby also helping to reduce reliance on public funding). By targeting multipliers, an exponential effect will be sought. More targeted support for the transnational circulation of works should help to generate economies of scale by fostering physical networks for artists and works (e.g. theatres, operas, concert halls, festivals) or wider digital distribution outside of traditional venues (e.g. opera and theatre beamed to cinemas, open air screens or other venues) and thereby facilitating the recoupment of costs through more extended runs and larger audiences.

More effective funding for literary translation would reduce the financial risk small- or medium-sized publishing houses face in translating foreign works.[43] The interim evaluation of the Programme shows that translation alone does not guarantee works being promoted by book retailers so that they can reach readers. Therefore additional measures are required in order to raise the chances of translated works reaching readers and the average print-run of books translated with support by the programme to increase. Support for strategic translation packages, readers' reports to promote the selling of foreign rights, and promotion could be expected to increase both the numbers of translated works and the numbers of readers reached. In addition, a stronger focus on correcting the current imbalance between source and target languages could be important in order to help translation into pivot languages, which could have an exponential impact on further translation and thereby increase the circulation of European literature, and could impact on consumers' choice and open opportunities for greater revenue streams.

Compared to the baseline this option would generate greater trans-national trade in cultural works within the Single Market thereby reducing the negative effect of fragmentation and offering European consumers a greater choice of culturally diverse works.

There would be benefits for policy-makers at European and national level through policy coordination processes which could help to foster more effective policies at the national level, contribute to the development of new business models and foster the collection of comparable data at a European level which could also have economic benefits at the national and sub-national level.

Social impacts

The programme would create employment benefits, through strengthening the commercial capacity of cultural organisations and SMEs and their adaptation to the digital shift and their capacity to operate internationally, and encouraging transnational mobility of cultural workers, providing transnational opportunities for learning and career development. This will create professional pathways and jobs.

The activities should increase access to culture through new means, helping the sector on the one hand to create new audiences (including young people), but also to engage innovatively with them in order to increase educational benefits, and reach out to the socially excluded. Greater exposure to foreign works would also foster greater pluralism, and increase inter-cultural understanding through the empathy generated by exposure to culturally diverse works.

The programme would have a positive impact on (the EU's relations with) 3rd countries, through creating opportunities for dialogue and co-operation between operators in those

43 For example, the interim evaluation of the current programme indicates that translation costs account for some 23% of revenues. Other estimates by the sector indicate that the cost burden is even higher.

countries and in Member States, as well as the two-way circulation of artists and works, which would foster mutual understanding.

Simplification

Under this option, the same management **simplifications** as those identified in section 5.1 would apply.

5.3. Option 3 "Synergies and new framework programme"

The economic, social, environmental and fundamental rights impacts of this option would be greater than those for the “Revised programme” (see above section). In the same way as the revised programme, it would send a clear signal regarding demand side issues. However, the programme may be expected to provide even more choice for consumers and to stimulate transnational demand for cultural works through easier knowledge transfer and synergies that could be gained in relation to challenges such as audience-building. In its decision on the future MFF the Commission proposes to attribute a sum of €1.6 billion (prices 2011) to the programme for its seven year duration.

Economic impacts

As stated earlier, globalisation and the digital shift require all sectors to adapt their practices and business models to the changing environment and it is expected that this process can be better facilitated at a European level within one framework programme which could ensure a more fluid flow of information between sectors and help increase knowledge sharing, for example in relation to policy development, and the testing of new and cross-sectoral business approaches to funding, distributing and monetising creation. It could also accommodate networking, collaborations and strategic partnerships between operators, industries and policy-makers more easily and cost-effectively than would be the case with two separate programmes.

In economic terms the inclusion of an access to finance instrument could help the CCS to get greater access to commercial lending enabling new growth markets to be reached, through digital distribution and sales, thereby reaching new and larger audiences and creating new revenue streams. This would provide greater consumer choice, and would – over time – reduce the cost of business. It would also lead to greater investment readiness among the CCS.

Bringing together the audiovisual industry with the other cultural and creative sectors would also bring policy synergies, as their separation is in some ways artificial. This is demonstrated by the fact that the denomination "cultural and creative industries" both outside the EU context as well as in EU texts tends to encompass all the creative sectors. Furthermore, the cultural, creative and audiovisual sectors are facing similar problems and have similar goals, and there are therefore valid reasons to address these in a common framework funding programme. Further economies of scale could be gained by a transversal approach to policy support where it is often artificial to separate the audiovisual industry from the other cultural and creative sectors analytically.

Social impacts

If the improved synergies and cross-fertilisation under a framework programme help to increase audiences in particular through the greater use of new information and communication technology, consumers would gain greater access to non-national culture and this would contribute to a greater mutual understanding and intercultural dialogue.

With regard to employment, numerous studies and reports, demonstrate the important employment role of these sectors and that growth was above average in recent years. The European Competitiveness Report 2010 indicates that there is an increasing percentage of people employed in creative occupations and in the EU-15 Member States employment in creative occupations grew at around 3% a year on average between 2002 and 2008 with the highest growth being recorded for artistic entertainment occupations (5.7%). The relatively low cultural participation rates indicated by Eurostat's cultural statistics[44] suggest a considerable growth potential in these sectors, which could have benefits for employment.

Simplification

In addition to the **simplifications** mentioned under the 'Baseline', which would also apply here, this option would offer the possibility of greater transparency for the users of the programme by establishing a single entry point for all cultural and creative sectors with simple and transparent access to support for transnational and international cooperation through merging the current individual information points for Culture and MEDIA. This would also help to ensure the highest possible quality of service to the public due to easier knowledge transfer. This option would also enable the respective Management Committees of the **current programmes** to be brought together.

In addition, a cross-sectoral strand encompassing a new financial instrument for the CCS, could be included. By facilitating access to bank loans, which are a better adapted tool for SMEs compared to grants, this would also constitute a simplification and have economies of scale compared to a large number of fragmented, national schemes.

6. COMPARING THE OPTIONS

The comparison of options presented in table 6 is based on a multi-criteria analysis, which includes the following criteria: effectiveness in terms of achieving objectives, efficiency, cost-effectiveness (result per Euro spent), and coherence. Under coherence, both internal and external coherence have been assessed, i.e. both the coherence between the option and the objectives to be reached (internal) and the coherence with and relevance to the overall EU policy and strategies (external coherence).

6.1. Effectiveness

Section 5 describes the main effects and impacts of the options. Table 6 summarises these impacts in relation to the specific objectives. In all cases the comparison is to the baseline, in which the Culture Programme is carried forward with no change.

The new form of programme sub-options would lead to greater capacity, competitiveness and circulation. Option 3 would lead to the greatest benefits by enabling better synergies with the audiovisual sector, a more comprehensive and structured collection of data, the sharing of information for policy development and the testing of new, cross-sectoral business models

44 Eurostat statistics op. cit.

and cross-sectoral exchange of experience, which will have a greater Europe-wide systemic impact and greater access to finance through a potential financial instrument for the CCS.

6.2. Efficiency

With regard to the options foreseeing a future programme, the main difference in regard to efficiency, for which there is data, is the management cost for the EU. However these costs are relatively low. The current management mode through the EACEA – which is recognised to be cost-efficient – would be continued. Assuming that the main cost is labour, then the relative costs depend on the labour intensity of administering applications to the programme and awards. In general, costs as a proportion of expenditure are highest for action lines that are oversubscribed (high ratio of applications to awards), make a large number of small grants, or involve more complex selection criteria and management. This means, for example, that at present the multi-annual projects are the most efficient, with the least efficient being the literary translation grants involving a large number of small contracts, and the festivals which are oversubscribed.

Under all options involving a continuation of the programme, further simplifications will be made to the delivery mechanisms through the greater use of flat rates, more grant decisions and framework partnership agreements, electronic applications and reporting, and an electronic portal to reduce paperwork for applicants and beneficiaries.

However, options 2 and 3 would introduce greater efficiency compared to the baseline by discontinuing some of the least efficient actions and introducing more larger grants. In both cases, as in the baseline, a certain number of simplifications would be introduced concerning the day-to-day management of the programme, so this aspect is neutral between the three options.

However option 3 would prove to be the most efficient, as it would also have the advantage of further savings due to the shared transversal elements with MEDIA, including policy support. It would also cut the administrative burden through a lower number of work programmes, committees and information points.

Regarding the **implementation costs in Member States**, the administrative burden for them is quite small under all the continuation options as the programme is managed centrally by the EACEA. They would however continue to share the co-funding of the information points. Option 3 would be the most efficient for the Member States, as the information point will be merged and fewer committees will take place, what will lead to some savings in the Member States.

The administrative burden of the programme on the sector is entirely voluntary in nature for those organisations that choose to apply. Therefore the burden in the baseline and other options is marginal.

6.3. Cost-effectiveness

With regard to cost-effectiveness, the result per euro spent, it is not possible to make a quantitative estimate. However, it can be assumed that option 3 would score best in this regard, followed by option 2. This is because both programmes would be clearer and more focused in terms of the targeted results, leading to greater systemic and structuring impact, including through a rationalisation of instruments (including over-subscribed ones) and more larger projects, which would reduce the administrative costs per euro significantly. Common information provision and entry points under a framework programme would make the programme more easily comprehensible and accessible for the cultural and creative sectors and would lead to greater cost-effectiveness. Furthermore, the programme would be explicitly seeking to prioritise projects capable of increasing audiences and outreach, meaning that greater numbers of people would benefit from the projects and each euro spent. The same amount of euros would therefore yield greater results than the **current programme**. Option 3 would have greater benefits because of the already identified benefits and economies of scale which could be gained through better synergies with the MEDIA programme (e.g. policy support, audience-building strategies) as well as a CCS financial instrument. At relatively low cost option 3 would open up access to private funding for cultural and creative SMEs.

The new Multiannual Financial Framework allocates a budget of €1.6 billion to the Creative Europe programme. The allocation of budget between the different strandss is based on the Commission's commitment not to reduce the current budget allocations for the MEDIA and Culture Programmes and also on the expectations of the sector's capacity to contribute to the objectives set out in the Creative Europe programme, also taking into account the minimum volume required for the new Cultural and Creative Sector Financial Instrument. The proposed total budget required to implement actions within the Culture strand in the next MFF will amount to approximately €487 million in current prices over the period 2014-2020.

Budget breakdown in current prices over the period 2014-2020[45]

Strands	*€ million*
MEDIA	905.5
Culture	487.2
Financial instrument	211
Cross-sectoral	75
Total	**1,678**

Cost of outputs in the Culture and the cross-sectoral strands

OUTPUTS of the CULTURE strand				
Outputs	Average cost of the output	Total number of outputs	Total cost	% in Culture strand
SPECIFIC OBJECTIVE No 1: Support the capacity of the European cultural and creative sectors to operate transnationally				
Cooperation measures, such as activities stimulating peer learning	0.360	356	128.1	26.2%
European networks, such as those providing capacity	0.100	132	13.2	2.7%

45 These figures in current prices are based on the financial statement attached to the Creative Europe proposed decision. They differ from the Multi-annual Framework quoted in 2011 prices

building				
European platforms, such as those providing a structure for international professional development	0.340	39	13.2	2.7%
Special actions, such as Prizes, ECOC, European Heritage label,	0.406	48	19.4	4%
Sub-total for specific objective N°1		**575**	**173.9**	
SPECIFIC OBJECTIVE No 2: Promote the transnational circulation of cultural and creative works and operators and reach new audiences in Europe and beyond				
Cooperation measures, such as those supporting international touring	0.360	553	199.2	41%
European networks, such as those promoting audience building	0.100	205	20.5	4.2%
European platforms, such as those fostering international careers	0.340	60	20.5	4.2%
Literary translations and promotional support	0.05	859	42.9	8.8%
Special actions, such as Prizes, ECOC, European Heritage label,	0.406	74	30.2	6.2%
Sub-total for specific objective N°2		**1751**	**313.3**	
Total cost of the CULTURE Strand		**2326**	**487.2**	

OUTPUTS of the innovative cross-sectoral Strand				
Outputs	Average cost of the output	Total number of outputs	Total cost	% in Cross-sectoral strand
SPECIFIC OBJECTIVE No 1: Strengthen the financial capacity of the cultural and creative sectors				
Establishment of a Cultural and Creative Sectors Financial Instrument [outputs: number of loans provided by banks to operators over 7 years]	848 (EIF fees plus expected loss)	14420	211.20	74%
Sub-total for specific objective N°1			211.20	
SPECIFIC OBJECTIVE No 2: **Support transnational policy cooperation**				
Network of Creative Europe desks	0.226	189	42.7	15%
Studies, evaluations and policy analysis [NB: This also includes the European audiovisual observatory]	0.317	36	11,4	4%
Transnational exchanges and networking	1.585	4	6.4	2%
Testing new cross-sectoral approaches	1.132	4	4.5	1.5%

Conferences, seminars and policy dialogue	0.232	42	9.8	3.5%
Sub-total for specific objective N°2		**275**	**74.8**	
Total cost of the innovative cross-sectoral Strand			**286**	

The distribution of funds for the above-mentioned action lines is based on the evaluation results, which confirm the effectiveness while indicating a need to realign the programme's objectives. The table below makes an assessment of the major assumptions on the basis of which the cost of the programme[46] has been calculated. The assumptions are based on experience with the **current programme** and are related to expectations about the results which could be achieved under the framework programme due to the clarity of its objectives. It justifies a minimum scale for the main action lines in order to fulfill the needs of the sector and optimize their results and impacts taking into account the need of optimal cost-effectiveness and cost-efficiency of the proposed actions.

Specific objective N° 1 Support the capacity of the European cultural and creative sectors to operate transnationally

Assumption	**Assessment**
Improvement of skills and competencies will contribute to the competitiveness of the European cultural and creative sectors through a greater match between the specialized skills required in order to work across national borders. This will help address market failure, currently limiting transnational activities. The Programme will fund approximately 575 projects over the full period.	The new programme is based on an assessment of the sectors' needs, taking into account the current level of support and the sectors' current needs concerning the capacity needed in relation to emerging interdisciplinary trends, new technologies, new business models, a shift from supply to demand (audience and consumer preferences) and rights' management. Support for cooperation measures such as activities stimulating peer learning, European networks providing services to strengthen the sectors' capacity, support for European platforms, such as those providing a structure for international professional development. The weight given to this component of the programme reflects the reality of the sector and the cost of the projects. The supported projects will involve some 3000 organisations permitting a sizable impact on the sector. Some 300.000 artists/cultural professionals will develop their careers.

46 Actions under specific objective n°3 are analysed in a separate Impact Assessment on the new financial instrument for CCS.

Specific objective N° 2 Promote the transnational circulation of cultural and creative works and operators and reach new audiences in Europe and beyond

Assumption	**Assessment**
Improving the transnational circulation of cultural and creative works and operators will help to reach new audiences in Europe and beyond and it will stimulate the sectors potential to contribute to growth and jobs. It will contribute to people's greater access to Europe's cultural and linguistic diversity. The programme will fund approximately 1751 projects over the full period.	The interim evaluation of the Culture Programme 2007-2013 indicates that cost is a barrier to transnational circulation and mobility. This is also emphasized in other studies, some identifying the lack of programmes and infrastructure to receive artists from other countries. The interim evaluation indicates that there is a need to optimise the support for literary translation for example by including promotional support and targeting translation into pivot languages. A more targeted approach is required to support transnational circulation for example through support for touring and exhibitions and audience building initiatives. An estimated 9000 organisations will benefit from the projects. All organisations will be required to have an audience-building strategy which will have a massive systemic effect. The literary translation support will help over 5.500 literary works to be translated, bringing a more diverse cultural offering to the market. An estimated 100 million citizens will be reached directly and indirectly over the full period of the programme. Special actions such as the European Capitals of Culture, the European Heritage Label and European Cultural Prizes will also reach many millions of citizens.

Specific objective N° 3 Foster policy development, innovation, audience building and new business models through transnational policy cooperation

Assumption	Assessment
There is a lack of comparable data regarding Europe's cultural and creative sectors and policies and opportunities both within and outside of the single market. There is a need for experimentation with new business models and revenue streams and exchange of experience through international networking. The programme will fund approximately 275 projects over the full period. Access to funding is limited due to insufficient knowledge of financial institutions about the CCS and sparse investment readiness of the CCS. (See IA CCS FI)	Better data will help to underpin more effective evidence-based policy making. Piloting actions to permit experimentation with new revenue streams and peer learning will foster accelerated knowledge transfer which will have spill-over benefits for growth and jobs. The Cultural and Creative Sector Financial Instrument will gear up the sectors' access to private finance and help the sector to develop projects that are ready for investment (greater investment readiness).

6.4. Coherence

While options 1, 2 and 3 are all consistent with the Treaty on the Functioning of the European Union (TFEU), options 2 and 3 are more consistent with Europe 2020, its flagships and the European Agenda for Culture. Option 3 is the strongest in this regard, by enabling synergies across the whole range of CCS and with an innovative financial instrument.

6.5. Scoring of options

The options were scored and then ranked. The option with the most positive overall assessment is option 3, namely a Culture strand as part of a framework Creative Europe Programme. This option scored higher than all other options and was ranked as the preferred option.

	Option 1 **No change (the Baseline)**	**Option 2** **Revised programme**	**Option 3** **Synergies and new framework programme**
Providing cultural operators with skills and knowhow to facilitate adjustment to the digital shift (audience-building strategies, new business models) through mutual learning	0	++	++
Support artists/cultural professionals to internationalise their careers	0	++	++
Strengthened European and international networks of cultural professionals to facilitate access to new opportunities and markets	0	++	++
Supporting international touring, events, exhibitions	0	++	++
Supporting literary translation, including promotion packages	0	++	++
Support for audience-building as a means of raising curiosity of the public and particularly young people and building a long-term audience for European cultural works	0	+	++
Stimulating access to funding	0	0	++
Improving the capacity of financial institutions to assess cultural and creative projects	0	0	++
Cost-effectiveness (result per € spent)	0	+	++
Implementation costs – EU	0	0	+
Implementation costs – MS	0	0	+
coherence	0	+	++
Overall assessment	**0**	+	**++**

Legend: 0 = no change, + = better than the baseline, ++= much better than the baseline, - = worse than the baseline, --= much worse than the baseline.

6.6. Preferred option

A single framework programme would have several advantages over all the other options:

- The first is that it can bring **greater policy synergies** as the different cultural sectors are generally considered collectively in the context of broader policy discussions on the cultural and creative sectors, including their contribution to the Europe 2020 strategy.
- The second is that a single programme would make it easier to achieve **knowledge transfer and cross-fertilisation** between sectors.
- The third advantage is that it can contribute to **simplifying the management** of these programmes. It would, for example, permit the establishment of merged information/access points, thereby improving visibility, facilitating the access of citizens to information on EU funding, and helping to ensure the best possible service to operators.
- The fourth is that these **simplifications** would also enable some reduction in the **administrative burden** for both the Commission and Member States. Simplifications will be made to the delivery mechanisms through greater use of flat rates, grant decisions and framework partnership agreements, electronic applications and reporting, and an electronic portal to reduce paperwork for applicants and beneficiaries. Similarly, the transversal strand would enable some **savings through economies of scale** in cross-cutting areas.
- The fifth is that within this single programme a transversal **Cultural and Creative Sector Financial Instrument** could be included in order to increase access to (private) funding.

This preferred option would also respond to the growing recognition at EU level of the importance of the cultural and creative sectors and offer the best basis for a common EU strategy to focus attention on the challenges currently facing these sectors. It would target EU support on those measures that provide most EU added value by helping the sectors to optimise their potential for economic growth, job creation and social inclusion.

The "Creative Europe" framework programme would be clearly linked to the Europe 2020 strategy and seek to optimise the contribution of the cultural and creative sectors to its goals. The proposal is in line with the Communication of the Commission on the Multiannual Financial Framework adopted on 29 June 2011 ("A Budget for Europe 2020"), which indicated that synergies would be brought into the culture related programmes of the European Union and that EU funding should be concentrated on areas where it delivers high EU added value. It proposes to attribute a sum of €1.6 billion (constant prices) to the programme for the seven year duration.

7. MONITORING AND EVALUATION

Concerning **monitoring**, this will be stepped up under the new programme. Collection of information on progress in relation to the **quantitative outputs** of the programme via its dedicated IT system would continue. These output indicators will be reported in the regular annual programme activity reports as at present.

Further efforts will, however, be made to capture the effects of the programme. New indicators will be devised (see following section) which will be incorporated in electronic application forms and electronic final reports, permitting the automatic extraction of data which is not currently possible. This could be supplemented by regular **qualitative assessment** aimed at measuring impact on individual beneficiaries, organisations and systems. Such assessments could take place through online surveys or other appropriate methods.

New policy support actions should contribute to improve market transparency and to the timely and regular evaluation of the indicators, especially context/market indicators for which there is currently a lack of data. The new programme is expected to include closer collaboration with the European Audiovisual Observatory, whose scope could be extended.

With regard to **evaluation**, in the past it has been common practice for the Commission to conduct two evaluations of a programme: an interim and final evaluation. For the round of multiannual programmes to be launched in 2014, the Commission's intention is to use a single interim evaluation, which would also serve as a final evaluation for the previous programme. The successor of the Culture programme would follow the new procedure. In order to enable the results of the evaluation to be taken into account for decisions on renewing, modifying or discontinuing the successor programme in the future, it should be ready no later than end 2017.

All external evaluations should be conducted by independent, impartial bodies. The methodological approach taken to evaluation would need to be determined at the time and in light of prevailing European Commission guidance.[47]

7.1. Indicators

The procedures for monitoring and evaluating the Programme will make use of objectives and indicators which are specific, measurable, achievable, relevant and timed (S.M.A.R.T.). For that reason, a number of indicators for the specific objectives will be developed, which are intended to capture the essence of the objective respecting S.M.A.R.T. criteria and accompanied by performance result indicators, in some cases quantitative. These indicators may also merit incorporation into the criteria for selecting projects. The indicative indicators are described in the table in annex 2.

[47] For a fuller description of attribution analysis and contribution analysis, see: http://ec.europa.eu/europeaid/evaluation/methodology/methods/mth_att_en.htm.

8. ANNEXES

8.1. Annex 1: Studies

In preparing this impact assessment the Commission has drawn on the following studies carried out for the Commission in recent years. These studies can be found at: http://ec.europa.eu/culture/key-documents/doc537_en.htm

Title of the Study	Publication
Study on the entrepreneurial dimension of cultural and creative industries	January 2011
Study on the contribution of culture to regional development	September 2010
Study on the mapping and evaluating of existing platforms (websites) within the cultural sector aimed at stimulating debate and cross border exchange of matters concerning European culture	March 2010
Study on the impact of culture on creativity	June 2009
A feasibility study on European information systems supporting the mobility of artists and cultural workers	March 2009
Mobility Matters	October 2008
Quantitative Eurobarometer study on the Europeans, culture and cultural values	September 2007
Eurostat pocketbook on cultural statistics	2007 and 2011
Study on the cultural economy	2006
Study concerning an inventory of the best practices linking culture with education	2003
Study on the exploitation and development of the job potential in the cultural sector in the age of digitalisation	June 2001

8.2. Annex 2: Indicative indictors

Related objective	Type of indicator	Indicator	Source of data collection
General objective: To foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth	Impact	The sectors' share of employment and share of GDP % of people reporting that they access European cultural works	Studies and European Audiovisual Observatory data (the latter will take some time to put in place) Regular Eurobarometer surveys
Specific objective 1: To support the capacity of the European cultural and creative sectors to operate transnationally	Result	Internationalisation of cultural operators and the number of transnational partnerships created Number of learning experiences created for artists/cultural operators which have increased their skills and employability	Evaluation; self-assessment monitoring survey
Specific objective 2: To promote the transnational circulation of cultural and creative works and operators and reach new audiences both in Europe and beyond	Result	Number of people directly or indirectly reached through projects	Evaluation; self-assessment monitoring survey
Specific objective 3: To strengthen transnational policy cooperation in order to foster policy development, innovation, audience building and new business models		Number of MS making use of the results of the OMC in their national policy development and number of new policy initiatives	OMC reports

8.3. Annex 3: Results of the public consultation

Summary of the Public Consultation Meeting (16 February 2011) regarding the new programme for culture: http://ec.europa.eu/culture/our-programmes-and-actions/consultation-on-the-future-culture-programme_en.htm

Summary of the results of the public consultation regarding the programme for culture: http://ec.europa.eu/culture/our-programmes-and-actions/consultation-on-the-future-culture-programme_en.htm

8.4. Annex 4: Interim Evaluation of the Culture Programme 2007-2013

Interim Evaluation of the Culture Programme 2007-2013, Final Report, Ecorys UK on behalf of the European Commission (2010): http://ec.europa.eu/dgs/education_culture/evalreports/culture/2010/progreport_en.pdf

8.5. Annex 5: Annex to the Ecorys Final report – Consultancy services for the impact assessment of the future programme on Culture

PART II: MEDIA STRAND

Leading Service: DG Education and Culture (EAC)

Other involved services: DGs BUDG, COMM, COMP, DEVCO, ECFIN, EEAS, ELARG, ENTR, INFSO, LS, MARKT, REGIO, RTD, SG and TRADE

WP reference: 2011/EAC/014 of the CLWP

Disclaimer: This report commits only the Commission's services involved in its preparation and does not prejudge the final form of any decision to be taken by the Commission.

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Purpose of the impact assessment report

DG EAC will propose a single "Creative Europe" framework programme bringing together the current Culture, MEDIA and MEDIA Mundus programmes. The proposal for a Creative Europe framework programme will include separate strands for Culture, MEDIA, transversal elements, as well as a financial instrument for the cultural and creative sectors (CCS).[48] The current multi-annual financial framework attributed to the programme an amount of € 1,6 billion for the period 2013-2020. This document contributes to the overall exercise by presenting exclusively the impact assessment of the future strand aimed at the audiovisual sector. The proposal for a Creative Europe framework programme will include separate strands for Culture, MEDIA, a transversal strand and a financial instrument for the cultural and creative sectors (CCS).

1.2. Organisation and timing

The renewal of the MEDIA Programme's legal basis after the expiration of MEDIA 2007 and MEDIA Mundus on 31 December 2013 is included in the Commission's work programme under the reference 2011/EAC/014. The adoption of Commission's proposal for a Regulation of the European Parliament and of the Council is foreseen at the end of 2011.

The detailed work on the impact assessment (IA) started in September 2010. An IA Inter-Service Steering Group (IA ISSG) was set up to monitor the work on the impact assessment and comment on the draft IA report. The first meeting of this ISSG was convened on 30 September 2010. The following DGs participated in the group: INFSO, COMP, COMM, MARKT, ENTR, LS and SG. DGs DEVCO, TRADE, EEAS, ELARG, BUDG and ECFIN were also invited at a later stage, following the decision to have a joint impact assessment for MEDIA and MEDIA Mundus and a separate one on a financial instrument for the cultural and creative sectors (CCS). Two further meetings were held on 16 November 2010 and 10 May 2011. The final draft of this report was discussed on 29 August 2011.

This IA is based on the assumption that the future MEDIA and MEDIA Mundus programmes will be merged. These programmes are currently covered by two separate legal bases. At the time of the adoption of MEDIA Mundus in 2009, the option of a merge of the two programmes was rejected, due to WTO compatibility questionsSince under the new

48 Concerning the definition of cultural and creative industries (CCI), "cultural industries" are those industries producing and distributing goods or services which at the time they are developed are considered to have a specific attribute, use or purpose which embodies or conveys cultural expressions, irrespective of the commercial value they may have. Besides the traditional arts sectors (performing arts, visual arts, cultural heritage – including the public sector), they include film, DVD and video, television and radio, video games, new media, music, books and press. This concept is defined in relation to cultural expressions in the context of the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions. "Creative industries" are those industries which use culture as an input and have a cultural dimension, although their outputs are mainly functional. They include architecture and design, which integrate creative elements into wider processes, as well as subsectors such as graphic design, fashion design or advertising. At a more peripheral level, many other industries rely on content production for their own development and are therefore to some extent interdependent with CCIs. They include among others tourism and the new technologies sector. These industries are not explicitly covered by the concept of CCIs used here. The term CCI is used interchangeably in this report with "cultural and creative sectors".

programme there will be equal access for professionals worldwide, without being based on the concept of membership, this problem is not an obstacle anymore.

The MEDIA 2007 Programme is listed in the GATS (General Agreement on Trade in Services), but is exempted from the general MFN (Most favoured nation[49]) treatment. The WTO rules mean that the guidelines for calls for proposals under the new Programme will have to respect certain conditions (in particular MFN) where international activities are concerned. Furthermore, the concerns expressed about merging MEDIA and MEDIA Mundus when the latter was adopted have in part already been dispelled by the 5 calls for proposals since 2008, meaning that the approach based on reciprocity for international cooperation activities is now understood by the stakeholders.

As can be seen from the previous IAs of MEDIA 2007 and MEDIA Mundus, confirmed by the external study carried out in preparation of the present IA and by the public consultations, both programmes address the same problems and have similar structures and objectives, the main difference lying in their geographical scope. Merging the two programmes would therefore significantly improve coherence and efficiency, and reduce the administrative burden on both the Commission and the beneficiaries (see details in section 6.2.2).

Independently from the decisions taken under the new Multiannual Financial Framework, a first step towards the operational merger of the two programmes was already planned to be undertaken in 2012, when the MEDIA Mundus management will be moved to the Executive Agency EACEA with related activities being integrated in the EACEA/P8 MEDIA Unit. The programmes will be fully merged in 2014, and until then they will be run on the basis of different calls for proposals.

The IA was submitted to the Impact Assessment Board on 7 September 2011, the IAB Opinion was issued on 7 October 2011. Recommendations provided by the Board in the Opinion have been taken into account in this IA. The most important changes relate to: the integration of the evaluation results in the problem definition; the clarification of the intervention logic; the strengthening of the explanations related to the discarding of certain options; the breakdown of the budget of Creative Europe into the 3 strands, and the breakdown of the MEDIA budget into its different action lines; a cost-effectiveness analysis in order to fulfil the requirements of an ex-ante impact assessment (Article 21(1) of the IR); a better reflection of the stakeholders views; the rationale behind the merge of MEDIA and MEDIA Mundus.

1.3. Consultation and expertise

1.3.1. Consultation

The minimum consultation standards[50] have been complied with: the Commission undertook an online consultation on the future of the MEDIA 2007 Programme from September through November 2010. 2,586 respondents responded to the Commission’s public online

[49] The "Most favoured nation" is a status awarded by one nation to another in international trade: the receiving nation will be granted all trade advantages (such as low tariffs) that any other nation also receives and a nation with MFN status will not be treated worse than any other nation with MFN status.

[50] “Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission”, COM(2002) 704 final.

consultation[51]. They represent a wide range of self selected stakeholders within the European audiovisual sector, from many Member States and other European countries. 58% of respondents were from the so-called "Group A" countries[52], and 39% of respondents were recipients of a grant under the programme. The online consultation revealed that the main priorities for the future programme as perceived by respondents are mainly: new technologies, gaps in training, fragmentation, support rules, media literacy, and quotas of European works.

A separate online consultation on the future of the MEDIA Mundus Programme took place from March to end of May 2011. The Commission received 367 replies from 51 countries[53]. 86% of the replies were submitted by professionals from Member States. Stakeholders participating in the MEDIA Mundus consultation prioritised actions to facilitate co-productions, i.e. the support of co–production markets and international co-production funds. Continuous training also received particularly high support from stakeholders.

The Commission has also conducted a series of stakeholder focus groups to further explore attitudes toward the programme and has organised conferences and meetings with various stakeholders in the context of the Rotterdam, Berlin and Cannes Film festivals 2011.

A public hearing on MEDIA and MEDIA Mundus took place on 18 March 2011 in Brussels[54]. The public hearing gathered together approximately 250 stakeholders such as filmmakers, producers, distributors, film directors, exhibitors, film funds etc., to present their views and debate on the future of the programmes. A further 900 people followed via streamed transmission. The main outcomes of this hearing were the following: In it's 20 years of existence MEDIA helped to significantly change the European audiovisual landscape; most European films would not be seen outside their home territories without MEDIA support; the European animation industries now play a very important role on the world markets and MEDIA has a major impact on the development of European co productions. However, the sector is now facing important challenges and opportunities from digitisation and globalisation and support will be needed to enable the sector to develop new business models and to benefit from the changing market conditions. It will be very important to support projects acting across the value chain and to focus more on audience building, branding and film literacy.

1.3.2. Evaluations and external expertise

Annex 2 provides a specific list of various evaluations of MEDIA and predecessor programmes carried out in recent years. On top of those, the Commission mandated a consortium led by WIK-Consult[55] to carry out an *"Impact assessment integrating ex ante evaluation requirements in view of the preparation of a proposal for the next MEDIA*

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51 A summary of the online consultation's results regarding the MEDIA Programme after 2013 is available at: http://ec.europa.eu/culture/media/programme/docs/overview/online_consultation_summary_en.pdf.

52 Group A countries are those with the strongest audiovisual production capacity: France, Germany, Italy, Spain and the UK.

53 A summary of the online consultation's results regarding the MEDIA Mundus Programme after 2013 is available at: http://ec.europa.eu/culture/media/mundus/docs/public-consultation-future-media-mundus_en.pdf.

54 The conclusions of this public hearing are available at: http://ec.europa.eu/culture/media/mundus/docs/Programme_public_hearing_The_future_of_the_MEDIAs_en.pdf.

55 The study was conducted by a team led by WIK-Consult and comprising Plum, IDATE, TNO, and senior expert Prof. Dr James Kahan, under Framework Contract for the Provision of Impact Assessment and Evaluation-Related Services to DG INFSO (Contract number: 30-CE-0208155/00-08).

Programme after 2013." The contractor collected market data and compiled relevant information deriving from the various sources mentioned above. Results of the contract were used mainly for describing problem definition, fine-tuning the objectives, analysing and comparing the options.

The results of all studies, evaluations, focus groups, public hearing and public consultations have been reflected in this Impact Assessment report. These results have been taken into account in the definition and assessment of the options examined in the present document (see sections 4.1 and 6.2).

2. CONTEXT AND PROBLEM DEFINITION

2.1. The policy context

In 2007 the Commission adopted its first real strategy for culture, "The European Agenda for Culture"[56]. The Agenda has three strategic objectives: to promote cultural diversity and intercultural dialogue, to foster culture as a catalyst for jobs and growth, and promotion of the vital role of culture in international relations.

Furthermore, the European Union was a major player in the conception and adoption of the UNESCO Convention on the Protection and the Promotion of the Diversity of Cultural Expressions[57,] which entered into force on 18 March 2007. Its aim is to "strengthen international cooperation and solidarity so as to favour the cultural expressions of all countries". This convention explicitly mentions films and emphasises the specific and dual (cultural and economic) nature of cultural goods and services.

The importance of the cultural and creative sectors (which include audiovisual industries) to create growth and jobs has been widely recognised[58]. MEDIA can help addressing some of the key challenges and thus contribute to several of the Europe 2020 flagship initiatives, in particular the *Agenda for New Skills for Jobs*[59] (by providing high level expertise to professionals), the *Industrial policy for the globalisation era*[60] (by supporting new business models aiming at improving the business environment – notably for the SMEs of the audiovisual sector), and the *Innovation Union* (by supporting pilot projects and stimulating innovation).

Furthermore, MEDIA is particularly important in the context of the *Digital Agenda for Europe*[61]. Indeed, some of is objectives are directly related to MEDIA objectives:

The circulation and competitiveness of European works (for instance through actions aimed at creating a vibrant digital market including actions addressing copyright and licensing)[62].

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56 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a European agenda for culture in a globalizing world (COM(2007) 242 final), 10.05.2007.

57 http://portal.unesco.org/en/ev.php-URL_ID=31038&URL_DO=DO_TOPIC&URL_SECTION=201.html .

58 The economics of the sector is discussed in "Multi-territory licensing of Audiovisual works in the European Union", Kea and Mines, October 2010.

59 An Agenda for new skills and jobs: A European contribution towards full employment, COM(2010) 682, 23 November 2010.

60 An integrated industrial policy for the globalisation era, COM(2010) 614.

61 A Digital Agenda for Europe, COM(2010)245, 19 May 2010.

Pluralism and linguistic and cultural diversity (for instance through Actions aimed at delivering ICT-enabled benefits for EU society including financing the EU digital library, digitising European cinema and implementation of relevant provisions in the AVMS Directive)[63].

The Commission also issued a Green Paper on "*Unlocking the potential of cultural and creative industries*"[64] seeking to develop a strategic approach to creative and cultural sectors so that Europe's strong and attractive cultural assets become the basis of a creative economy and a cohesive society through the development of the right enablers.

2.2. Historical development and results of the current programme

The first MEDIA programme was created in 1991 on the basis of EU industrial policy. This action was part of the Commission overall approach to the audiovisual and cinema sector which included a regulatory arm ("*Television Without Frontiers Directive*" – intended to realise a common market in broadcasting[65], later replaced by the Audiovisual and Media Services (AVMS) Directive[66]) and a support programme for the European audiovisual industry (MEDIA I). Indeed, the EU audiovisual policy has historically been implemented through 2 main types of instruments

(1) Legislative instruments:

- The Audiovisual and Media Services (AVMS) Directive, aimed at building a single market for audiovisual works. It includes amongst other measures quotas for broadcasters[67].
- Legal framework for Intellectual Property Rights
- Competition and State aid rules

(2) Expenditure programmes (MEDIA and MEDIA Mundus)

Over the subsequent period, the form of support has evolved and its scale has increased as illustrated in Table 1.

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62 See Section 2.1 of the Digital Agenda.

63 See Section 2.7 of the Digital Agenda.

64 Green Paper, *Unlocking the potential of cultural and creative industries*, COM (2010) 183.

65 *Directive 89/552/EEC - "Television Without Frontiers"*. The Directive aimed to ensure the free movement of broadcasting services within the internal market and at the same time to preserve certain public interest objectives, such as cultural diversity, the right of reply, consumer protection and the protection of minors. It was also intended to promote the distribution and production of European audiovisual programmes, for example by ensuring that they are given a majority position in television channels' programme schedules.

66 Directive 2010/13/EU of the European Parliament and of the Council of 10 March 2010 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive). It amends and renames the Television without Frontiers Directive to adapt it to the new technological environment.

67 For example, broadcasters must reserve a certain proportion of their transmission time, for European works, and for independent productions.

Table 1: History of European Union programmes in the audiovisual sector

Period	Programme(s)	Budget	Key areas of support
1991-1995	MEDIA I	€200m	Transnational collaboration
1996-2000	MEDIA II	€310m	Training, development and distribution
2001-2006	MEDIA Plus	€454m	Development, distribution and promotion
	MEDIA Training	€59m	Networking between training partners
2007-2013	MEDIA 2007	€755m	Distribution, development, promotion and training
2008-2010	MEDIA International	€ 8m	Cooperation with third countries
2011-2013	MEDIA Mundus	€ 15m	Cooperation with third countries

2.2.1. Current EU Programme: MEDIA 2007

The MEDIA 2007 programme[68] focuses support on either end of the value chain rather than on production, such that it is largely complementary to Member State support and to EURIMAGES. It has a budget of € 755 million over the period 2007 to 2013. The global objectives of the programme are:

- Preserving and enhancing European cultural diversity and its cinematographic and audiovisual heritage, guaranteeing its accessibility to European citizens, and promoting intercultural dialogue.
- Increasing the circulation of European audiovisual works inside and outside the European Union.
- Strengthening the competitiveness of the European audiovisual sector in the framework of an open and competitive market.

The geographic scope of the programme is all EU Member States and Croatia, Iceland, Liechtenstein, Norway and Switzerland.

The eligibility criteria of the action lines focus support on European independent producers and distributors and exhibitors: there is a bias towards SMEs. The programme generally funds up to 50% of eligible costs for relevant activities rather than offering full funding. The programme provided funding via 5,515 contracts in the period 2007-2009 with an average funding of € 53.925 per contract.

68 Established under Decision 1718/2006/EC which sets out details of the programme objectives, actions, budget and implementation.

The operational management of the Programme has been entrusted to the Executive Agency for Education, Audiovisual and Culture (EACEA), in charge of the implementation of European Commission programmes in the field of education, audiovisual and culture. The EACEA manages the publication of calls for proposals, the pre-selection of projects, the management of the contracts and the grants payments (see section 6.2).

The MEDIA Desks & Antennae constitute a network of local MEDIA representation offices that contribute to the implementation of the Programme, by informing professionals about support for the audiovisual sector in Europe.

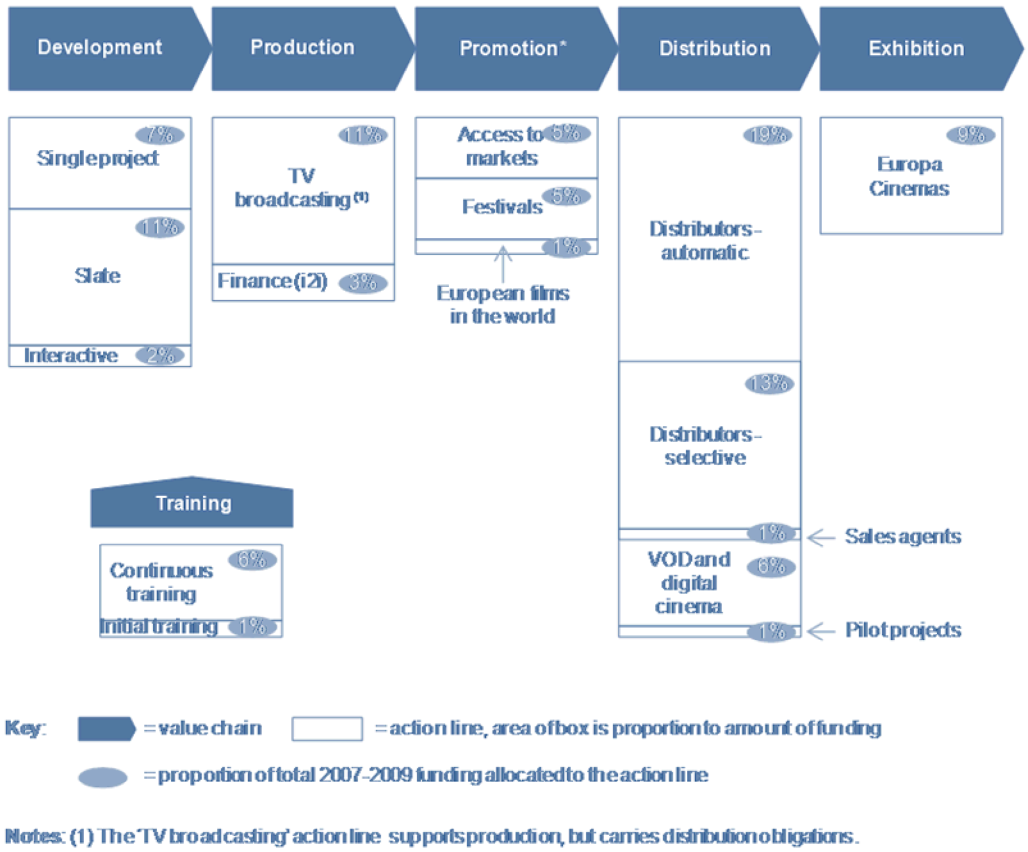
In the context of its mission to contribute to the transparency and circulation of information on European audiovisual markets, the MEDIA Programme also provides for EU membership of the European Audiovisual Observatory[69], a body that collects and analyses data on European and international audiovisual markets.

MEDIA actions and evaluation results

MEDIA focuses actions on the elements of the value chain where gaps have been identified with respect to national support schemes, where action at European level is needed and where it can have maximum leverage. Figure 2 lists the action lines alongside the value chain and shows how support is allocated between them.

Figure 1: MEDIA 2007 action lines - funding along the value chain

[69] Set up in December 1992, the European Audiovisual Observatory gathers and circulates information on the audiovisual industry in Europe. The Observatory is a European public service body, created in the form of an enlarged partial agreement of the Council of Europe, with 37 member States and the European Union, represented by the European Commission. The participation of the Commission is regulated by article 16 to 19 of Decision 1718/2006/CE establishing the MEDIA 2007 Programme.



A mid-term evaluation of MEDIA 2007 was carried out in 2009-2010[70]. This evaluation confirmed the positive results of the programme on the European audiovisual sector and reaffirmed the relevance of its objectives and the effectiveness of its action lines, particularly as regards the competitiveness of the sector. These action lines are outlined below:

- **Training** – MEDIA 2007 and MEDIA Mundus provide support for institutions and/or organisations offering training courses relevant to the objectives of the programme. About 1,800 professionals (producers, distributors, scriptwriters) are trained annually acquiring relevant qualifications and skills and benefitting from cross-border networking opportunities. This support to capacity building in the industry helps to professionalise the sector and improves company and project quality. Improving the quality of the projects developed by the participants, their knowledge of the sector and management skills, produces a direct impact on competitiveness. Creating meeting opportunities, facilitates the conclusion of international co-productions, thus increasing circulation of European works. The mid-term evaluation concluded that this action line is effective and offers a significant "quality label" to its beneficiaries.
- **Development** – Support to audiovisual projects enables production companies to develop their project further, improving the script, finding international partners and consolidating budgets and financial plans. As a result, 400 quality European projects

70 Evaluation carried out by a consortium of independent experts, composed of Eurévál and MCG (Media Consulting Group). The final report is available on http://ec.europa.eu/culture/media/programme/overview/evaluation/reports/index_en.htm.

are brought to the market every year, with a positive impact on competitiveness. Slate funding – the support to a portfolio of projects as opposed to pure single project support – provides a stronger financial solidity and a longer term perspective to production companies (mainly small under-capitalised SMEs). The evaluation confirmed that this approach has an important structuring effect on the industry.

- Additionally, within the development action line, i2i Audiovisual supports production companies by taking over the financial costs related to the production of audiovisual works. It subsidises part of the costs related to bank credits, insurance and completion bonds of European independent audiovisual production companies. According to the evaluators this scheme, despite its utility, seems to be rather insufficient in terms of resources to fully respond to the needs of professionals. Its continuation will need to be reconsidered, especially in view of the creation in 2010 of the MEDIA Production Guarantee Fund. The MPGF facilitates access to private sources of finance for producers via a guarantee mechanism that encourages banks to grant them credits by sharing the risk incurred.[71] The Fund was opened to applications in May 2011 and has been accepted favourably by the film industry and banks, resulting in more than a dozen guarantees with a loan value of around €18 million in about ten different member states.

- **Television** – support to independent producers to produce audiovisual works for international television distribution. Support to specific genres such as documentaries and animations have proven to be critical given the specific needs identified in these genres. There would however be a need to reconsider the form of intervention and selection criteria in view of improving the effectiveness and geographical coverage of this action.

- **Promotion** – MEDIA also supports producers and sales agents to conduct business-to-business promotion of their projects, both works in progress and finished products. The evaluation confirmed that presence in major festivals and markets provides business opportunities for professionals and improves the visibility of European works, both towards buyers and towards the public.

  Networking activities such as co-production forums, international market and training initiatives result in a significant increase of transnational co-productions (from 26% of European films in 1989 to 34% in 2009). These films have a 2.3 times higher circulation potential than national films[72]. Networks such as EAVE, ACE, Cartoon, created under the impulsion of MEDIA support, constitute the backbone of the European cinema industry.

- **Theatrical distribution –** The MEDIA support to **Distribution** is the only support available in Europe, since national support mechanism focus quasi-exclusively on production. The support is targeted at the crucial Theatrical release window which remains the principal "brand building" mechanism for films and drives their value in the subsequent "video", TV and other windows. 50% of European films released outside of their national territory cross borders thanks to the MEDIA support. Since 1989, the proportion of European films amongst all first time released films in European theatres was raised from 36% to 54% in 2009. During the same period, the

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[71] Its total budget is € 8 million for a four year duration, With this budget thanks to the leverage effect of the guarantee mechanism it is expected to generate over € 100 million in bank credits

[72] Source: European Audiovisual Observatory, 2008.

share of American films decreased from 47% to 44% despite a high increase in marketing spending from US majors in Europe. This improved market performance of European films in theatres is at least partly due to MEDIA support, as recognised also in the mid-term evaluation.

- **Exhibition** – Through the network **Europa Cinema**, MEDIA supports the programming of European films in European cinemas. The network includes over 2,000 screens across the 32 countries that are members of the MEDIA Programme, representing 20% of first-run screens available in Europe. Most are independent cinemas that provide a broad and diverse offer of films to the audience and thereby promote cultural diversity in 475 cities of the EU. Their quality programming has attracted 59 million admissions (against 30 million in 2000) representing 5,6% of total admissions in Europe (2,8% in 2000). The proportion of box office generated by non-national European films programmed in the network reaches 36%, against an average of 7-8% in Europe. European films account for 57% of admissions to Europa Cinema screenings, against a European average of 27,7%.

The above mentioned mid-term evaluation confirmed the added value MEDIA 2007 brings to national interventions in this field. Some individual action lines have been identified as having low or no impact given for example their relative small size (e.g. i2i Audiovisual, interactive works, some aspects of TV). In the new Programme, they will be discontinued, fundamentally revised or integrated into other activities. Finally, the evaluation recommends some innovations in the form of intervention of the programme, and some specific action on the demand-side.

2.2.2. Current EU programme: MEDIA Mundus

In order to further extend MEDIA activities beyond European borders, MEDIA International was launched in 2008 as a preparatory action of the European Parliament. The **MEDIA Mundus** programme (2011-2013), the successor to the MEDIA International Preparatory action (2008-2010), is a broad international cooperation programme to strengthen cultural and commercial relations between Europe's film industry and film-makers of third countries from all over the world. The EU provides €15 million of funding for projects submitted jointly by audiovisual professionals from Europe and from third countries. MEDIA Mundus supports projects with in principle at least three partners, one being the team coordinator based in a MEDIA territory, and at least one partner located outside of the EU.

MEDIA Mundus actions and evaluation results

The action lines under MEDIA Mundus broadly correspond to those under MEDIA 2007:

- **Training**: to strengthen the skills of European and third- country professionals:

- **Market Access**: to promote access to international markets and partner search for audiovisual works. These projects concern the development and/or pre-production phases (for example international co-production markets) and activities downstream (events facilitating international sales of the works).

- **Distribution and circulation**: encourage distribution, promotion, screening and diffusion of European works in third-country markets and of audiovisual works from third countries in Europe under optimum conditions.

- **Cross-over activities**: support projects of a cross-cutting nature, i.e. touching upon several priorities of this programme, e.g. training with subsequent pitching events at co-production meetings.

No ex post evaluation results are available so far for MEDIA Mundus. However, a first assessment of those projects indicates that the most successful are the transversal projects, while initial training initiatives have proved to be less successful and will be discontinued in the future. Also, more information will be provided by the results of the ongoing final evaluation of its predecessor programme MEDIA International expected by the end of 2011.

Prior to the adoption of MEDIA Mundus in 2009, the Commission carried out an "Extended Impact Assessment on the establishment of an audiovisual cooperation programme with third countries, MEDIA Mundus, integrating ex ante requirements. This Impact assessment confirmed the needs of the European audiovisual industries to internationalise their activities, including international co productions.

Furthermore, stakeholders provided overwhelmingly positive feedback, for example in the public consultation, on the relevance of the programme's objectives and the success of the supported projects under MEDIA International. This success was further confirmed by the result of the first call for proposals under MEDIA Mundus. Indeed, in response to the first call in 2011, the Commission received 118 proposals seeking an overall of € 27 million, while the budget of the programme is only € 4.8 million. Due to the budget restraints even excellent projects had to be rejected, indicating a high level of extra absorption capacity of the programme[73].

2.3. Market context

Activities carried out through the above described programmes need to be seen in a broader context of the Europe's Cultural and Creative Sectors. The CCS employ **3.8%** of the total European workforce, or approximately **8.5 million workers**, and contribute **4.5%,** or approximately **€ 560 billion**, to total European GDP[74]. The size of the European audiovisual market is estimated at € 107,4 billion and offers 1,2 million highly qualified jobs. Price Waterhouse Coopers expects the filmed entertainment market to grow 3.4% on average per year in Western Europe and 6.9% in Eastern Europe between 2009 and 2013[75].

The EU cinema industry produced 1,203 feature films in 2010 compared to 754 in the USA, 1288 in India (2009) and 526 in China. In 2009, Europe was the third largest cinema market in the world with 966 million admissions; compared to 2917 million in India, 1341 million in North America and 264 million in China[76].

Feature film production capacity is concentrated in France, Germany, the UK, Italy and Spain (the so-called "Group A" countries) representing 62% of films produced in the EU in 2009[77], primarily because consumption in these markets is large enough to support national film production. EU 15 (without the "Group A" countries) countries accounted for 23% of films

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73 For more on the merger between MEDIA and MEDIA Mundus see section 1.2.and 6.2.2.
74 Building a Digital Economy: The importance of Saving Jobs in the Eu's creative industries" – TERA Consultants.
75 Source: PwC Global Entertainment Outlook 2009.
76 Source: European Audiovisual Observatory - Focus 2010.
77 Source: European Audiovisual Observatory - Yearbook Online Premium Service 2010.

produced and EU 12 only for 15%. In EU 12 markets, the audiovisual production sector is more focused on television as this is less costly to produce and can be sustained in a smaller market.

The video games sector is a dynamic component of the audiovisual sector. According to PricewaterhouseCoopers (2009), the global video games market was estimated at some €45 – 50 billion in 2009, and is expected to grow four times faster than the media and entertainment market as a whole (70% versus 17%). Europe is one of the biggest markets for video games[78] and hosts a large population of developers' studios, often the creators of major market successes[79].

2.4. Problem definition

2.4.1. Problems to be addressed at EU level

Within the above described context, 4 specific problems have been identified, that will be the basis for EU action for the European audiovisual industry after 2013. They have been identified on the basis of the result of the various studies and consultations mentioned in section 1.3. and take into account evaluation results and implementation experience as described in section 2.2.

Problem n°1 – Fragmentation of the market and industry

European audiovisual markets are **inherently fragmented** along linguistic and cultural lines, in terms of production and of distribution, and the general framework in which they operate. On the one hand, fragmentation results in a culturally diverse and highly independent production industry, providing a voice for the different cultural traditions that make up our European heritage diversity, which is something that the EU is committed to safeguard and promote.

On the other hand, fragmentation limits in a structural manner to the transnational **circulation** of audiovisual works within and outside the European Union. Indeed, linguistic and cultural differences restrict the potential market of films given that audiences have a (natural) preference for national productions in their own language. It therefore represents a risk for distributors to buy the rights on a non-national film which in addition implies dubbing and subtitling costs.

Although the European Union produces a large volume of films and television fiction, animation and documentary, the market share of these works is low compared to non-European works. In particular, US films attract a high share of audiences and revenues on all audiovisual distribution channels. As illustrated in the table below, US films accounted for 68% of cinema admissions within the EU in 2010 (with less than 20% of the total number of films released), compared to 25,3% for European films (though they represent over 60% of

78 In 2009, France, Germany, Italy, Spain and United Kingdom accounted for nearly 30% of the global videogames market.

79 In 2008, among the world top 100 developers studios, 27 were European, 32 were American, 26 were Japanese, 11 were Canadian, 2 were South Korean, 1 was Australian and 1 was Chinese (source: www.develop100.com).

the total number of films released). Non-national European films only account for 7-8% of market share, leaving just 1-2% to films from the rest of the world[80].

Table 2: Breakdown of admissions in the EU according to the country of origin[81]

Region	2005	2006	2007	2008	2009	2010
U.S.	62,5%	63,4%	62,6%	65,6%	67,1%	68,0%
European films	24,6%	27,9%	28,1%	28,2%	26,7%	25,3%
Europe / U.S. inc[82]	10,3%	5,6%	7,5%	4,4%	4,2%	7,9%
Others	2,6%	3,2%	1,8%	1,8%	2,0%	1,3%

On average, each European film is only released in two countries including the country of origin, or 4.6 countries in the case of co-productions involving producers from several countries[83]. The proportion of European films that gain distribution in any EU market outside their national market ranges from 38% in the "Group A" countries to 18% in EU12 countries[84]. Although this proportion could be considered as a reasonable absolute number of films circulating abroad, European films do not benefit from the same distribution and exhibition conditions as those distributed by US majors. Indeed, the latter tend to take up an important share of programming time on the main cinema screens. This is due to the fact that they are released on a much larger scale, and are in principle accompanied by important global marketing campaigns. On the contrary, European films usually have smaller budgets, and are often screened in smaller cinemas, benefit from less weekly screenings over a shorter period of time, leading to a much lower total number of admissions per film released (see figures above). As a result, the market share of US films is largely dominant in almost all European countries.

Audiences therefore have limited opportunities to see the large numbers of films and television fiction, animation and documentaries produced in Europe, particularly non-national European works. Similarly, relatively very few films produced outside of Europe or the US are distributed in the EU.

The European industry is also struggling with the problem of low market share of European films on foreign markets, as illustrated in the table below. In 2009, the market share of European films in 6 of the main third countries markets ranged between 2 and 4%.

Table 3: Market share of European films versus US films in 2009[85]

Region	Market share of European films	Market share of US films
Mexico	4%	84%

80 US enterprises also have a strong position in television fiction, accounting for the majority of content on European television screens. Similarly, a 2007 survey found that transmission of non-domestic European works on respondents' broadcast television services made up 8.2% of total qualifying transmission hours (7% in peak time), but only 4.3% of total qualifying viewer hours (2.9% in peak time).

81 Source: European Audiovisual Observatory – Lumiere database.

82 Films produced in Europe with incoming US investment. Example: Harry Potter

83 Source: European Audiovisual Observatory, 2007.

84 Source: European Audiovisual Observatory, 2008.

85 Source: European Audiovisual Observatory (2010), Instituto Mexicano de Cinematografia (IMCINE), Korean Film Council (KOFIC), Instituto Nacional de Cine y Artes Audiovisuales, Argentina (INCAA), Unifrance, Motion Pictures Association of America (MPAA).

Argentina	4%	73%
Brazil	4%	78%
South Korea	2%	43%
India	2%	10-12%
USA	3%	92.%

Indeed, whilst diversity is indeed a key driver for Europe's rich cinematographic production, it has a negative impact on the industry's competitiveness, preventing the European industry from achieving a larger market share and limiting its economic impact. This **lack of competitiveness** of European films with regard to US films is due to their different market structures and the type of film they produce, both in terms of budget[86] and distribution structure. While US films can count on an important homogeneous domestic market to recoup the costs of production, this is not the case for EU films, where domestic markets are smaller and heterogeneous, they are generally distributed successively on a country by country basis, only after successful release on one territory. In addition, the US Majors[87] are fully vertically integrated: in addition to their important financial and production capacity, they own global distribution networks. On the contrary, due to the fragmented market, EU films often have an insufficient national basis to make up for the costs of production, especially in countries with a restricted linguistic or geographical area.

As far as video games are concerned, they might well represent a significant opportunity for Europe in the coming years but they face similar circulation and market share issues. If Europe boasts numerous independent successful games development studios (see. 2.3), publishing activities, as for the film industry, are mainly dominated by non European companies[88]. This absence of European publishers is problematic. Actually, publishers occupy a position of strength in most types of games development, partly because the production of video games and all other digitised creative content is characterised by high fixed and low marginal costs. This creates a need for investment in the early stages that affects power relations in the value chain, and leads to the emergence of the publishers as the financing, and therefore dominant, actors. This situation prevents European video games developers from achieving their full potential and thus diminishes their revenue base and their competitiveness[89].

In conclusion, the fragmentation of the European audiovisual markets and industry limits the circulation of European works and the revenues of the operators (producers, distributors and exhibitors) within the sector, with negative impact on its competitive position. This is a

86 The average US film budget is more than 10 times that of the average EU film budget of 5M€, and a US film will spend more than 20 % of its budget on marketing – more than twice the budget of an EU film.

87 A major film studio is a movie production and distribution company that releases a substantial number of films annually and consistently commands a significant share of box-office revenues in a given market. In the North American, Western, and global markets, the major film studios, often simply known as the majors, are commonly regarded as the six diversified media conglomerates whose various movie production and distribution subsidiaries command approximately 90 percent of the U.S. and Canadian box office (20th Century Fox, Paramount, Warner Bros, Walt Disney, Universal, Columbia).

88 In 2009, among the world top 20 video games publishers, only two were European (Ubisoft and Atari, two French companies), against 10 American and 8 Japanese. Source: PricewaterhouseCoopers, 2009.

89 This characteristic is further strengthened by the oligopolistic structure of the consoles market (Sony, Microsoft and Nintendo). The impact of this dominance is all the more damaging for European developers given that these consoles providers have their own development studio and play a major role as publishers. In this context, the small size, the quasi absence of vertical integration and the undercapitalisation (see. Problem 2) of European developers may alter their ability to contest the market power of the consoles providers in the value chain.

problem at EU level, inasmuch as it prevents the industry from fulfilling its potential for generating economic activity, growth and employment. Furthermore, it reduces cultural diversity because people are unable to fully benefit from the cultural and social value that European audiovisual works convey, especially with regard to building social cohesion, inter-cultural understanding and a European cultural identity.

However, this fragmentation is inherent to the nature of the European market and cannot be changed. One of the main objectives of the MEDIA Programme over the last 20 years has therefore been to try to overcome it, by encouraging transnational circulation of works and cross-border collaboration between professionals. Examples of actions towards that purpose as well as an evaluation of the results and impacts obtained so far are detailed in 2.2. They mainly relate to the support of transnational distribution of European films, their screening in a network of 2,000 cinema screens and networking activities.

Stakeholders have identified fragmentation as one of the priority problems to be tackled by EU action. The analysis of the responses to the online consultation carried out in 2010 indicates that fragmentation was the 7^{th} top preoccupation (out of 60) expressed by the market players.

Problem n° 2 – Access to finance[90]

Another historical structural weakness of the audiovisual sector in Europe is the chronic **underinvestment** and **undercapitalisation**[91] of companies and the fact that the sector is mainly composed by micro-enterprises or SMEs with few tangible assets.

While this is a common challenge for SMEs in general, the situation is significantly more difficult for those operating in the audiovisual sector. Firstly this is due to the intangible nature of many of their assets, such as copyright, which are usually not reflected in accounts (unlike patents). As a consequence financial institutions often fail to understand the risk profile associated with this sector and its specific characteristics. Secondly, unlike other industrial products, cinema and other audiovisual works are generally not mass-produced. Every film or videogame can be seen as a unique prototype and the companies tend to be project-based, whereas investment often needs to be longer-term to become profitable. Also the banks' lack of expertise in film project evaluation and the lack of SMEs investment readiness[92] limit mutual understanding. There is therefore substantial difficulty for these small under-capitalized enterprises to grow and maintain their competitiveness. Shortage of reliable data, as mentioned in Problem n° 4, also limits the possibilities of SMEs in the sector to get credit funding as financial institutions often rely on statistical evidence in their due diligence for loan applications.

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90 This subject is discussed in details in the Impact Assessment of the new CCS Financial instrument

91 Around 80% of enterprises in the CCS are sole traders or micro-SMEs employing only a handful of people. Within this majority of 'microenterprises' almost 60% consist of very small micro-businesses with only 1 to 3 employees. See *Study on the Entrepreneurial dimension of CCIs (2011)* http://ec.europa.eu/culture/key-documents/doc3124_en.htm. Also, the level of investment in film production per capita is relatively low in Europe: US – USD40; Japan – USD20; EU- USD13.

92 Ability to understand investors' concerns, to understand the differences between the types of financiers, to fulfil specific financial requirements of banks and investors.

Additionally, the economic and financial crisis has led banks to refocus their activities on core business and move away for what are perceived as higher risk sectors such as the audiovisual industry, making **access to finance** for SMEs of the sector even more difficult.

Also, presales of audiovisual works to television channels or co-production deals which have traditionally constituted a key resource for the production of audiovisual works are getting scarcer. Indeed, the economic crisis, the multiplication of the number of channels and the changed viewing habits in particular of young audiences has led to a drastic reduction of their advertising revenues. Buying fewer programmes for lower prices, television channels and film distributors have reduced their contribution to the sector, with important consequences on the economic models of audiovisual production, as well as those of sales and distribution.

Other consequences of the difficult economic situation are the reduction of public support within a certain number of Member states and the tendency for each territory to focus their efforts on their own national cinematography rather than opening up to other European countries.

As far as the video games industry is concerned, it has been identified as a potential growth opportunity for Europe but it is subject to challenges that are partly different from than those associated with the film industry. However, in terms of access to finance, most players in the gaming industry are SMEs, face the same challenges as traditional audiovisual firms.

Stakeholders have identified Access to Finance as one of the priority problems to be tackled by EU action. Firstly, 54% of the respondents to the online consultation launched in 2010 strongly agree with the facts that "*assisting independent production companies to access private funding"* and "*establishing a European Guarantee Fund*" improve the competitiveness of the European Audiovisual sector. Secondly, the *Potential Cultural and Creative Industries Platform*[93] also mentions Access to Finance as a key recommendation. Amongst others, it suggests the development of financial tools adapted to the needs of the cultural and creative industries such as loan guarantee schemes or cultural and creative SME-friendly growth loan finance.

The current MEDIA Programme has so far responded to that need in a relatively limited way. The i2i action, representing 2% of the annual MEDIA budget, supports the financial costs of film producers such as financial interests related to bank loans or insurance costs. Following the results of the stakeholder consultations carried out in 2004 in preparation of MEDIA 2007, a MEDIA Production Guarantee Fund, also representing 2% of the budget has been launched as pilot action in order to facilitate access to bank credit for film producers. The Fund was opened to applications in May 2011 and has been accepted favourably by the film industry and banks, resulting in more than a dozen guarantees with a loan value of around €18 million in about ten different member states.

Problem n°3 – Impact of globalisation and the digital shift

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93 The Potential Cultural and Creative Industries Platform was set up by the Commission in the context of the implementation of the European Cultural Agenda. It is composed of stakeholders of the Cultural Industries (nearly 40 European organisations representing hundreds of thousands of cultural and creative actors from different fields). In 2009, it presented a set of recommendations to EU policy makers, aiming to unlock the potential of the European cultural and creative industries in particular SMEs.

The consequences of these structural weaknesses have been further emphasised by rapid changes related to the **globalisation** of the market, the booming of new **digital services** and new ways of producing and consuming audiovisual content, as well as by a difficult economic context.

The **digital revolution** means profound changes for the cinema economy, equivalent in 10 years to a century of previous changes, bringing about mutations in the production, distribution and exhibition of films. The booming number of global distribution channels (digital TV, internet, IPTV, Video-On-Demand) exposes theatrical exhibition to higher competition and has changed the power balance of the audiovisual markets[94]. The digital shift is having a massive impact on how audiovisual works are made, disseminated, accessed, consumed and monetised.

These changes could mean significant opportunities for European audiovisual works, which have little space in the traditional model, based on mainstream theatrical distribution circuits and traditional broadcasting. Lower distribution costs, new distribution channels and new opportunities for niche products can indeed facilitate their circulation worldwide. In order to seize these opportunities and adapt to the new context, the sector needs important investments to upgrade equipment, develop new means of production and distribution, adapt business models and structure the market. The economic situation and structural weaknesses of the sector however make it difficult to meet these costs, while in some foreign markets the digital revolution has created strong financial growth and promising investments and, consequently, a growing demand for more audiovisual content reinforcing their competitive advantage.

There is consequently a need for structural industrial support to the European audiovisual sector. The key challenge for the European audiovisual policy is therefore to address the needs of the audiovisual industry in order to adapt to the new context, and to help it find new ways of creating value and driving revenues.

So far the current MEDIA Programme has supported a series of innovative pilot projects based on innovative technology and aimed at developing new distribution platforms or innovative business models. Some of these actions have been streamlined in a specific action line in support of Video-On-Demand and Digital Cinema Distribution. It also supports different training programmes focused on technological innovations such as 3D for example. However, the interim evaluation of MEDIA 2007, the stakeholders consultations as well as studies carried out by EAC or other organisations have all pointed out that this strategic aspect of the audiovisual market is not sufficiently taken into account by EU action in favour of the sector and should be tackled in a broader and more structured way.

Stakeholders have identified digitisation as one of the priority problems to be tackled by EU action. The analysis of the responses to the online consultation carried out in 2010 indicates that digitisation was the 2nd top preoccupation (out of 60) expressed by the market players. Indeed, the need to adapt to take advantage of digital technologies stood up as a key challenge (more specifically digital masters, digital cinema and VOD).

94 This can be compared to the appearance of TV in the 50s and the multiplication of TV channels in the 80s.

Problem n° 4 – Shortage of reliable data

The shortage of reliable data at European, global and national level has consequences for European policy coordination, which can be a useful driver for national policy developments and systemic change. Policy coordination is most effective when underpinned by a strong evidence base. There are serious problems concerning the availability of data, notably that from private companies.

Currently, the Commission services dealing with the audiovisual industries can only rely on the statistics provided by the European Audiovisual Observatory or the EACEA, which do not constitute sufficient basis in terms of consistency and scope for informed policy development. There is therefore a need to strengthen this aspect of policy support.

This was confirmed by the final evaluation of MEDIA Plus and MEDIA Training carried out in 2007 found that some of the data required to measure the impact of the programme could not be collected, either because the data is not collected within the framework of the monitoring of the programme, or when it is collected, it is not input systematically or aggregated in a common database. This problem was again confirmed in the interim evaluation of MEDIA 2007. Regarding context and market data, the different definitions and methods used by the various sources of information undermine the consistency of the data and hence their comparability. It is particularly the case between the statistics resulting from the executive Agency, the European Audiovisual Observatory sector and national bodies.

The evaluation of the effectiveness of the programme was hindered by weaknesses in monitoring and context data. In conclusion, evaluators recommended to "Continue the effort of adaptation to the market, which involves being able to anticipate the developments of the sector, and developing a system of monitoring and context parameters"[95].

2.4.2. Groups affected by the problems

The symptoms of the problems are experienced by the same stakeholders that are linked to its causes: consumers and participants at every level of the value chain. In summary, the groups affected include the following European entities:

- Consumers and in particular new audiences
- Audiovisual producers and production companies
- Distributors and sales agents
- Cinema exhibitors
- Television broadcasters
- Providers of video-on-demand services
- Organisers of audiovisual festivals and events

95 Source: Interim Evaluation of MEDIA 2007, Final Report, Euréval – 2009.

- Video games developers and distributors
- Institutions offering education and professional training
- Professionals working in the audiovisual sector
- Marketing and promotional bodies
- Banks and financial institutions
- Policy makers

2.5. Baseline

2.5.1. Likely development of the problem all things being equal

Current EU Programmes MEDIA 2007 and MEDIA Mundus are extensively described in sections 2.2.1. and 2.2.2. The baseline case for this impact assessment assumes their continuation as well as continuation of the complementary initiatives identified in section 2.7 in roughly their current form. This section examines the likely development of the problem over the period 2011-2020.

On the basis of the previous evaluations it can be assumed that the positive benefits would continue.

Problem n° 1 – Fragmentation

The scale of the problem in terms of measurable metrics such as the share of EU cinema admissions of European films and NNE films has been relatively stable in recent years. This situation would be likely to continue should the features and dynamics of the sector remain the same over the period; however, there are a number of areas of potential change that could affect the scale of the problem and/or introduce new aspects to it.

With regard to distribution channels, cinema audiences have remained relatively stable over recent years, and are likely to remain so over the next few years. DVD consumption is decreasing, audiences for VOD services are increasing but there is uncertainty over the future scale of audiences on these new distribution channels and the performance of new business models. On international markets new digital technologies create a strong demand for new audiovisual content. MEDIA Mundus enables European professionals to acquire the necessary skills and networks to benefit from these new global opportunities and facilitates the international sales of films. With the limited resources of MEDIA Mundus, the European audiovisual sector would miss an opportunity to access world markets. Linear television audiences are likely to remain relatively stable or decrease slightly, with a proportion of audience time migrating to new distribution channels. Overall, this will increase the weight of aspects of the problem relating to new distribution channels, in particular in the global context with regards to traditional ones. These trends, and other factors, will have an influence on the funding available for the production of audiovisual works. Financial pressure on television broadcasters and the decreasing DVD market are likely to negatively affect the funding available for film.

Overall, these effects are likely to increase the scale of the fragmentation problem and lead to a slightly lower competitiveness of the European audiovisual sector in Europe and on global markets.

Problem n°2 – Access to finance[96]

The MEDIA Production Guarantee Fund (MPGF) was launched in 2010 with € 8 million for a duration of 4 years. Should this mechanism be continued with the same scope and size and in the absence of innovative initiatives to encourage financial institutions to further engage with the sector and provide financial instruments such as debt funding, the problem of access to finance will remain for many CCS, notably for those not covered by the MPGF at all[97]. It would most probably become more acute in the coming years given the new market context and challenges faced by SMEs of the sector, as exposed above.

It is estimated that the financial gap for SMEs in the cultural and creative sectors (CCS) ranges from € 2.8 to 4.8 billion[98]. This amount is based on an estimation of the proportion of SMEs bank loans requests rejected on the basis of informational asymmetries, comparatively high transaction costs and their lack of tangible collateral. It represents the amount of debt funding missing in CCS due to their specificities. In spite of its high leverage effect, the current budget allocated to the MPGF is largely insufficient to have a real impact on the problem. This question of insufficient impact on the problem is developed further in the chapter on the creation of a larger financial instrument for CCS.

Problem n°3 – Impact of globalisation and the digital shift

As explained in section 2, the digital shift implies fundamental changes in the way that audiences consume audiovisual content. The Internet has developed a significant role in providing content and information on what is available and where, contributing also to the globalisation of the market. It is probable that this trend will continue in future.

Unless innovations are brought to EU action in favour of the CCS to address the new challenges described in section 2.4.1, there is a risk that the sector will fail to benefit from the opportunities of the digital shift and the new marketing, distribution and showing techniques it provides. This would be particularly the case for global markets where there is an increasing demand for audiovisual works. Such a decrease in the competitiveness of the European audiovisual sector would affect the global circulation of European works and access to finance for operators of the sector.

Problem n° 4 – Shortage of reliable data

Data collection and analysis is already problematic. In addition the new forms of marketing and indeed new distribution practices will be vital in the future. Not adapting the current statistics policy would mean that operators could lack the information necessary to make investments in the globalised and digitised future landscape.

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96 This issue is discussed in depth in the IA on Cultural and Creative Sector Financial Instrument.

97 The current MPGF only covers independent film producers to cash flow the production phase of feature films, animations or documentaries. It doesn't cover other phases of the audiovisual value chain, other professionals of the audiovisual industry (such as distributors), or other sub-sectors of the CCS

98 See detailed calculations in the Impact Assessment for the CCS Financial Instrument

In conclusion, continuing MEDIA in its current form would enable support to the audiovisual sector to be pursued and to partially tackle the issue of fragmentation and circulation. However, it would fail to support the sector in addressing the new challenges raised by digitisation and globalisation, and to seize the opportunity of adopting measures with greater structuring effects such as a financial instrument.

2.6. EU – Right to act

Article 3(3) of the Treaty on European Union recognises that the internal market and economic growth must be accompanied by respect for the EU's cultural and linguistic diversity. In this context, EU action towards the audiovisual sector is based on articles 167 and 173 of the Treaty on the Functioning of the European Union (TFEU) on respectively culture and industrial competitiveness.

Additionally, the EU Charter for Fundamental Rights (Article 22) states that the Union shall respect cultural and linguistic diversity. Finally, the Union's mandate is recognised in international law, in the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire*.

2.7. Subsidiarity and EU added value/ necessity test of the new EU initiative

(1) Complementarities with national actions and EU initiatives

The programme will continue to be an **essential complement** to initiatives undertaken **at national level**, as national funding schemes tend to focus on national production activities or the promotion of purely national interests. A broader European approach will continue to complement these initiatives by strengthening the cross border and/or trans-European dimension, for example through supporting circulation of non-national European works, international cooperation and networking within Europe and with third countries, thereby contributing to capacity building and mutual learning and establishing new market opportunities. It’s also essential given that individual Member States support quasi-exclusively the production phase, while MEDIA continues to concentrate on actions upstream (training, development) and downstream (distribution, promotion, exhibition) of the value chain.

European structural funds are administrated by the Member States and may regionally or nationally support audiovisual industries like, for example, modernisation and digitisation of cinemas and film studios. They might complement MEDIA in some instances, but would not cover the whole EU since it depends on regional initiatives or many of the activities supported currently by the MEDIA Programme.

The European Competiveness and Innovation Framework Programme (CIP) targets small and medium-sized enterprises (SMEs), supports innovation activities, provides better access to finance and delivers business support services in the regions. SMEs in the audiovisual sector are eligible for the SME Guarantee Facility, offering transversal support to all SMEs but which has mostly consisted of increasing the volume of loans through traditional bank credit lines. It is complementary to MEDIA in terms of the form of intervention (financial instrument vs. direct grants). However, due to this transversal approach, the CIP has a very limited impact on extending activities in sectors in which intermediaries (financial institutions) have little activity (such as in the audiovisual sector). Therefore very few companies in the audiovisual sector have been able to benefit from the CIP.

In the context of the development policy, the EU has set up a series of instruments in support of the audiovisual industry in third countries. The objectives of MEDIA Mundus are complementary to those of **ACP Films**, **ACP Culture**, the **Euromed Audiovisual programme** and **Mercosur Audiovisual**. MEDIA Mundus is intended to support international cooperation and partnership building rather than development of the local industries (production, promotion, distribution, training, professional development) in the regions targeted by the other developing policy's programmes[99].

Eurimages is the European cinema support fund set up by the Council of Europe. The fund had a budget of € 21.3 m in 2010. It pursues both cultural and economic objectives. As MEDIA 2007 focuses on upstream (training, development) and downstream activities (distribution, promotion, exhibition), the fund is largely complementary to the programme. The fund aims to promote the European film industry, thus supports mainly the production stage of co-production (90% of spending in 2010).

In addition, there are several European funding bodies supporting international co-productions. These funds[100] cover all geographic zones of the world and all parts of the value chain. However, their budgetary allocations are very limited (a total of less than € 10 million in 2010).

(2) Added value and leverage effect

European markets need to collaborate and act collectively in view of reaching sufficient critical mass to access international markets. In that context, MEDIA supported projects generate strong **added value** by creating a **critical mass and economies of scale,** especially in newly emerging cultural fields (e.g. influenced by technological developments), and markets (MEDIA Mundus) and where expertise is geographically dispersed and fragmented. European projects also bring added value where international exchange fosters accelerated learning and the promotion of excellence, for example in addressing new challenges faced by the sector as presented in section 2.4.1.

The **added value** of MEDIA is also significant in so far as it introduces a strong **European dimension** into the supported projects. Co-production forums at international level lead to the development of European projects with stronger financial plans and better structured production partnerships. In the long run, sustainable transnational partnerships have arisen between producers and between distributors, thus strengthening the structure of the industry and helping to overcome the issue of fragmentation. These actions, also relating to international markets, can only be taken at European level.

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99 ACP Films is a programme of the Group of African Caribbean and Pacific States (ACP) which is carried out within the framework of the EU-ACP Partnership Agreement. It supports the production of cinema and audiovisual works, the promotion, distribution, dissemination and networking of the cinema and audiovisual sector, and the development and training of professionals in the cinema and audiovisual sector in the ACP States. The Euromed Audiovisual programme supports the training of professionals in the audiovisual sector, the building of distribution capacity and the emergence of new distribution models and media in Southern Mediterranean countries, as well as the development of a Euro-Mediterranean audience for audiovisual productions. It is implemented as part of the Euro-Mediterranean Partnership. MERCOSUR Audiovisual, or RECAM as it is officially called, was created by the MERCOSUR authorities in December 2003 to promote audiovisual cooperation within South America.

100 Ibermedia, Balkan Fund, Produire au Sud, Fonds du Sud, Hubert Bals Fund, Jan Vryman Fund, World Cinema Fund, Göteborg Film Fund, Southern Vision, Visions Sud-Est and starting in 2012 SØRFOND

EU policy towards the audiovisual industry **inspires national and regional authorities** in the design of support mechanisms. For example, new Film Institutes have been created in Croatia, Slovakia and Malta. In Austria, Cyprus and the Czech Republic the scope of activities supported and the budgetary means of such institutes have been reinforced.

MEDIA Mundus projects have generated important co financing from countries all around the world, for example from Canada, Argentina, Malaysia, South Korea, Japan, Australia and Russia.

Overall, a **MEDIA quality label** has emerged over the years, attracting additional sources of finance such as national or regional support or private investments and therefore MEDIA support has a significant added value for projects from all Member States.

With this approach whose effectiveness has been demonstrated in the various independent evaluations carried out over the years, MEDIA produces a **strong leverage effect** on the European audiovisual industry. In the case of Europa Cinemas theatres network for example, 13 Euros revenue is generated for each Euro invested in the European network, and 17 Euros in the international network[101]. As far as the distribution sector is concerned, distributors are subject to a reinvestment obligation of the grants received, that need to be reinvested in the release of more non-national European films, producing a leverage effect on the economy of the sector, with a global benefit to the market share of non-national European films at EU level.

To sum up, in spite of a relatively small budget of around € 100 million per year in a market worth 1000 times more, MEDIA has produced significant results thanks to focused actions optimising the cost-benefit ratio and leverage of the programme. Indeed, actions have focused on activities where there will be a positive impact on EU competitiveness and on needs that are not addressed at national level. They are partly inspired by some of the success factors of the US film industry[102].

3. OBJECTIVES

- Action towards the general objective will be taken via a set of specific and priorities.

General objective	• Foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020

[101] Source: Europa Cinemas.

[102] In particular, support to project development allows production companies to invest more time in scriptwriting and financial planning, thus improving the quality and market potential of the projects; inherent European market fragmentation is tackled by specific networking activities between professionals at European level and support to international distribution; and skills gaps by specific training programmes.

	strategy.
Specific objectives	• 1. Support the capacity of the European cultural and creative sectors to operate transnationally; 2. Promote the transnational circulation of cultural and creative works and professionals and reach new audiences in Europe and beyond; 3. Strengthen the financial capacity of the cultural and creative sectors[103]; 4. Support transnational policy cooperation.
Priorities	**Specific objective 1: Support the capacity of the European cultural and creative sectors to operate transnationally:** - Providing audiovisual professionals with skills and know how relevant to the objectives of the programme. - Building up international networks of audiovisual professionals. - Developing audiovisual projects that have the potential for circulation within Europe and beyond. - Facilitating European/international co-productions. - Providing access to markets and business tools. - Stimulating the use of and developing competency relating to new business models, technologies, distribution platforms and forms of audiovisual work
	Specific objective 2: Promote the transnational circulation of cultural and creative works and professionals and reach new audiences in Europe and beyond: - Support the marketing, branding and distribution of audiovisual projects and works on all relevant platforms, including cinema, television, video-on-demand, online platforms and festivals. - Improving the presence of audiovisual works on relevant services in order to increase their visibility. - Support for media literacy and audience building as a means of stimulating demand for European films, particularly amongst young people and build a long-term audience for audiovisual works.
	Specific objective 3: Strengthen the financial capacity of the cultural and creative sectors: - Provide expertise/capacity building to the financial institutions and encourage its geographical spreading throughout the EU - Provide guarantees to banks dealing with cultural and creative SMEs thereby enabling them easier access to bank credits - Increase the number of financial institution which are willing to work with cultural and creative SMEs - Maximise the European geographical diversification of financial institutions willing to work with cultural and creative SMEs.
	Specific objective 4: Support transnational policy cooperation in order to foster policy development, innovation, audience building and new business

103 This objective will be addressed through a new financial instrument that will facilitate access to financing for the CCSs. A full analysis is provided in the separate IA on Cultural and Creative Sector Guarantee Facility.

	models - Studies on the market context and the relevance and impact of the programme. - Market intelligence and data collecting tools via inter alia the European Audiovisual Observatory, Eurostat and other operators and other policy support measures..

Specific objective 3 will be addressed through a new financial instrument that will facilitate access to financing for the SMEs of the Cultural and Creative Sectors. Given the technical complexity of this issue, it is addressed by a separate Impact Assessment.

4. POLICY OPTIONS

4.1. Selecting the appropriate instrument

As mentioned before, the current EU audiovisual policy has been implemented trough legislative instruments and expenditure programmes. Different instruments have been considered during the preparation of the new programme. However, to address the problems described above, and to overcome the fragmentation of markets the most effective instrument is an **expenditure programme**. It would be complementary to existing legislative instruments and other EU funding programmes, as described in section 2.7.

In this section, there is an analysis of how the current expenditure programmes (MEDIA and MEDIA Mundus) might be continued, ended or changed after 2013. The options under consideration are summarised below.

Table 4: Policy options

Option	Summary
The baseline	The "no change" option. Continuation of the MEDIA 2007 and MEDIA Mundus programmes.
No action	The "no programme" option. No further renewal of the MEDIA 2007 and MEDIA Mundus programme at the end of 2013.
Integrated programme	Redesigning the programmes, possibly radically, to take into account potential new developments and to respond to new needs in the audiovisual sector. Merging MEDIA and MEDIA Mundus Programmes.
Integrated MEDIA strand within a framework programme	This involves both redesigning the programmes as described under option 3 and changing them so that synergies between MEDIA and Culture programme are exploited.

4.2. Criteria applied for pre-selection of options to undergo further analysis

All options raised by stakeholders of the audiovisual sector, external experts, institutions etc have been collected to undergo a first screening. Some have been discarded without further analysis; others are examined in the context of this exercise.

Before examining those options, it is important to note that some complementary initiatives need to be put in place in view of optimising the effectiveness and the efficiency of the new programme in its endeavour to achieve the objectives, whatever option is selected. Indeed, evaluation results of the MEDIA Programme have systematically identified the need to simplify some elements of the Programme and **options have been assessed also in the light of the simplification and streamlining opportunities they offer**. In particular, structuring actions and systemic impact[104] have been given higher priority. Also some policy support measures need to be introduced and the extension of the regional scope of MEDIA could be facilitated by simplifying the access conditions to the programme for non-EU countries.

A number of **simplification opportunities** have been identified both on a strategic and operational level. While operational simplifications described in the efficiency section 6.2 below will be implemented in all cases, the following **strategic simplifications** opportunities have been used to select those options to be retained for further analysis.

- Focus on structuring actions with a maximum systemic impact. For example, through a reduction of development support for individual projects and increase of development support to slate of projects, to produce a longer term impact on the whole production company robustness and viability rather than just on one of its projects)

104 A systemic impact is achieved when an action aimed at one element of a system has an impact on the whole system

- Create a financial instrument to progressively replace direct grants where possible (for some categories of players / some types of projects) and improve the systemic impact on the sector (see previous point)
- Increase the leverage of EU budget, with such tools as the MEDIA Production Guarantee Fund
- Streamlining of the international dimension previously in separate MEDIA Mundus Programme under a single legal basis
- Cross-cutting value chain approach by supporting a limited number of film projects with high commercial and circulation potential ("champions") throughout the value chain, from training to distribution
- Transversal projects covering several segments and players of the value chain to achieve a knock-on effect an have a broader impact
- Support Sales agents with broad market reach and global market approach
- Coordinated approach on all sources of content (music, audiovisual, cross-media, publishing etc). (A common approach to creative and cultural sectors is proposed under option 4.)

As regards the **regional scope** of the MEDIA Programme Access to the MEDIA programme should be simplified and should open the possibility to participate to "the greater European audiovisual area", i.e. all neighbouring countries. Those countries in return would pay a participation fee which reflects the importance of their respective audiovisual sectors, following the example of Switzerland and Croatia who are currently members of MEDIA 2007.

4.3. Discarded options

- On the basis of the budget proposed in the Multiannual Financial Framework for Creative Europe, and in order to satisfy the political commitments made by the Commission not to reduce the current allocations of the MEDIA and Culture Programme on the one hand, and the minimum size required for the new financial instrument for the Cultural and Creative sectors on the other hand, it is expected that the annual budget to implement MEDIA actions in the next MFF will be similar to the current one. Given the needs expressed by the market to meet the challenges and fulfil the needs identified in section 2 and considering the expected budgetary constraints, there is a lot of pressure on the MEDIA Programme to optimise cost-effectiveness, thereby reducing the number of realistic options for the implementation of a new expenditure programme.

- A preliminary analysis of the needs to be addressed by the new programme had led to various proposals to reinforce some existing actions (e.g. increase support to distribution, extend the scale and scope of the financial instrument) or to implement new measures such as support to high-growth distribution channels, demand stimulation measures, support to co-productions and video games.

- However, these individual options have been discarded given their partial approach to the problem to be addressed at EU level. Indeed, acting only on one element of the value chain would not be cost-effectiveness, since it would not produce sufficient knock-on effects on other elements of the value chain and there fail to achieve the required systemic impact as mentioned in section 4.2 above. Each element of the value chain (training, development, production, post-production, promotion, distribution, and exhibition) would then suffer disproportionately. Since EU action has to be targeted and given the level of integration of the value chain, a more comprehensive line of action is required. These individual options have therefore been discarded and did not undergo further analysis.

- Other options have been discarded the basis of a lack of critical mass of the budget proposed in the Multi-Annual Financial Framework 2011. For example, direct support to broadcasters for prime-time showing of European content can not be envisaged due to insufficient budget and lack of commitment from broadcasters. Similarly, the budget is too small to introduce a support to European production and have a significant impact. Additionally, it would not offer sufficient EU added-value, given that production is already supported at national and regional levels. These options been discarded and did not undergo further analysis.

The current impact assessment therefore considers 4 options.

4.4. Option 1: No change (the baseline)

The baseline option entails a continuation of the existing MEDIA 2007 and MEDIA Mundus Programmes. Thus, MEDIA 2014 under this option would be largely a carbon copy of both these programmes. Their main action lines would be maintained and there would be a common approach to their management by the MEDIA Unit of Executive Agency EACEA (which will already be the case as of 2012).

The way in which the situation is likely to develop under this option has been described in Section 2.5.

4.5. Option 2: No action (the "no programme" option)

Under this option, there would be no renewal of the MEDIA 2007 and MEDIA Mundus Programme at the end of 2013. In assessing the impact of this option, it was assumed that all other relevant programmes (including audiovisual support programmes of the Member States) remain in force, but that they do not take specific actions to attempt to replace the MEDIA programmes.

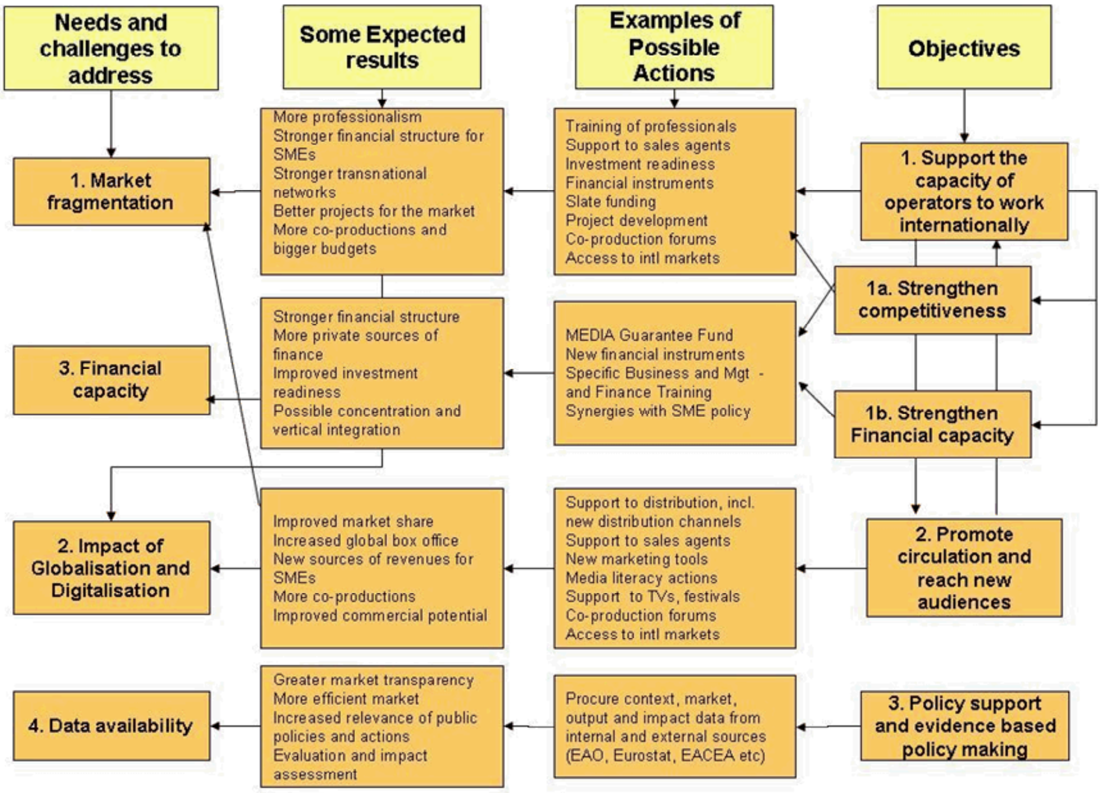
4.6. Option 3: Integrated programme

The option would be **to take an integrated approach addressing the full set of problems and needs of the sector**, as described above. It would also entail a into the MEDIA component of the programme as laid down in point 1.2 of the present document,.

Actions that have demonstrated their effectiveness in the past (such as support to distribution would be and maintained as well as complementarities with national schemes, while focusing on structuring actions with a maximum systemic impact, for example, by increasing the use of financial instruments and having an integrating approach across the value chain.

The links between the needs and objectives identified, the actions proposed and the expected impacts are illustrated in the figure below.

Figure 1 – Intervention logic of the new MEDIA Integrated Programme



Increase resources for distribution on all distribution platforms: The limited level of circulation of European works on all distribution channels is a bottleneck that restricts their commercial potential. This option would refocus the resources of the programme spent on distribution on areas where most impact is expected on circulation and market share. For example, selective distribution would be refocused on the basis of the priorities of the new programme (for example, specific focus on animation films with a high market potential). The current TV scheme would be maintained for documentaries and animation that benefit from very limited support at national level, but support to fiction would be focused on a limited number of co-produced high-quality TV series with higher European-wide commercial potential than the currently supported fictions (inspired by the success of American TV series since 2000). Increased resources would be dedicated to sales agents with a wide international reach, in order to benefit from their knowledge of the market and support their international sales activities of European works. Specific funding would be provided to high-growth distribution channels to enable the sector to take a global optimum advantage of these growth opportunities.

Expand and structure audience building measures: The wealth of consumer choice in an increasingly digitised and globalised environment makes stimulation of audience demand increasingly important. The current MEDIA Programme is indirectly supporting demand for European films by supporting the marketing costs of distributors releasing non-national European films. The new programme would include direct support to audience building measures (film literacy, marketing, events and branding of European films).

Increase use of financial instruments: Given the leverage effect of financial instruments and their structuring effect on the industry, direct support in the form of subsidies could be progressively shifted to financial instruments for some types of supports and beneficiaries. This would entail an increase in size and scope of the existing guarantee fund or the creation of a new CCS financial instrument (subject to a separate Impact Assessment).

Expand to include video games: Extending financial instruments (like the guarantee fund) to this sector would allow access to early-stage financing for promising European development studios. Capacity building and promotion actions in favour of operators of this sector should also be considered.

Support co-productions: As underlined above, co-productions travel better than national works. To fulfil the need to support European companies coproducing also with third countries (outside of the Eurimages scope), support could be made available to Europe-based international co-production funds in order to encourage co-production between European and non-European professionals and thereby further opening international markets.

To address the problem of insufficient **data collection**, the new programme will support studies and development of data collecting tools in order to provide clearer evidence for policy-making. Regarding external context data on European and international markets, closer cooperation will be established with partners such as the European Audiovisual Observatory and Eurostat. The analysis of internal data will require the constitution of an internal market intelligence capacity to collect and analyse context and monitoring data. Other actions in favour of market transparency where the MEDIA programme could potentially intervene is the support to information tools such as European wide databases, for example to collect all "licensing" agreements to enable the identification of right-holders.

4.7. Option 4 - Integrated MEDIA strand within a framework programme

There are similarities in overall goals of the MEDIA and Culture programmes: they both encourage cross-border cultural flows, and both seek to address fragmentation and resultant diseconomies of scale in the cultural sector in Europe. There are potential synergies that can be considered, entailing the extension of some of the activities carried out under the MEDIA Programme to other sectors of the cultural and creative sectors (CCSs), in particular regarding the financial instruments.

This option would entail:

Creating an common framework programme "Creative Europe" for successors to the MEDIA, MEDIA Mundus and Culture programmes, with a third strand common to both to support financial instruments, in order to build on those potential synergies;

Policy support in a common transversal strand;

Designing integrated programme acting at key points in the value chain as proposed in option 3.

In practical terms this means that the general and specific objectives would be common to all strands, but there would be variations in the priorities, and separate calls for proposals. This approach would have the advantage of accommodating the value chains in the different cultural sub-sectors appropriately[105]. Also, a single framework programme would greatly contribute to the visibility of European support actions for the cultural and creative sectors in Europe and offer a simple single entry point.

The transversal strand would include policy support measures such as data collection (see 4.6), policy analysis, studies and evaluations about the Cultural and Creative Sectors (also covering the European Audiovisual Observatory). It would also encompass a network of Creative Europe Desks, representing the Creative Europe Programme in the Member states. Actions financed under this strand would also include transnational exchanges and networking activities, the testing of new cross-sectoral approaches as well as conferences, seminars and other forms of policy dialogue events.

The transversal strand, as well as the financial instrument, building on the current MEDIA Production Guarantee Fund but covering all the cultural and creative sectors, would bring economies of scale. As mentioned earlier cultural and creative companies and organisations would benefit from this instrument as it would globally improve their access to private sources of finance[106].

5. ANALYSIS OF IMPACTS

To assess the impacts of the proposed options relative to the baseline, it is necessary to assume that other complementary or related policy instruments, such as national support,

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105 Indeed, there is considerable variation between cultural sub-sectors compared to the audiovisual industry, where the value chain is more segmented and distributors have a very predominant role. This means that the beneficiaries have distinctive needs and harmonised calls would not be appropriate.

106 The financial instrument is analysed in details in a separate Impact Assessment exercice

other Commission programmes, and legislative measures would continue to apply in roughly their current form.

The focus of the new integrated MEDIA programme and the other options is on achieving economic and social outcomes, and hence the largest impacts are likely to be in these categories. As with most expenditure, there will be some environmental impacts; however, changes in environmental effects are likely to be marginal and won't be further discussed.

5.1. Framework for analysing impacts

The various options have been assessed in view of their potential effectiveness in achieving the desired objectives. In the table below, economic, social and environmental impacts identified flow mainly from the intended effects of the options on the competitiveness of the sector and the circulation of audiovisual works.

Table 4: Main areas of economic, social and environmental impacts

Areas of economic impact	Areas of social impact	Areas of environmental impact
Functioning of the internal market and competition (trade level) Revenues and profits of the audiovisual sector Competitiveness of European audiovisual companies Cost of business for SMEs	Level of consumer choice of audiovisual content Cultural diversity Cultural identity Media pluralism (diversity of media) Employment in the audiovisual sector Job quality in the audiovisual sector	Demand for transport (passenger and freight) Energy consumption

As mentioned in section 4, the impact of the options have also been assessed in view of their structuring effect and systemic impact on the sector, as well as the simplification and streamlining opportunities they may offer.

5.2. Analysis of impacts

5.2.1. Assumptions, risks and uncertainties

The analysis of impacts and likely development of the problem are sensitive to uncertainty in several areas.

- Current situation uncertainties – there is limited availability of data in some areas[107] which creates uncertainty in the description of the current state of the sector.
- Causal uncertainties – the causal model posited in annex fits the available evidence, however, there may be alternative interpretations. The greatest uncertainty relates to new distribution channels such as VOD and demand stimulation, where robust evidence is scarce.
- Exogenous uncertainties – there is uncertainty over future market and technology developments and the actions of Member States (e.g. continuation of present subsidies and policies). The way in which new audiovisual services will develop, particularly the business models employed and the scale of new distribution channels compared to traditional ones, is an area of major uncertainty.

5.2.1.1. Option 1 - The baseline

In the baseline scenario the scale of the problem is likely to increase and lead to a lower competitiveness of the European audiovisual sector in Europe and on global markets, as described in section 2.5. above.

Economic impacts

Given the expected evolution of the market context, failing to harness the opportunities offered by the new technologies and business models would have a negative impact on the overall global competitiveness of the European audiovisual sector. This would affect the global circulation of European works as well as the revenues for operators of the sector.

107 For example, with respect to VOD distribution (e.g. level of consumption of NNE works) and consumer demand (e.g. consumer awareness of NNE works).

Social impacts

Similarly, and as explained in section 2, the digital shift implies fundamental changes in the way that audiences consume audiovisual content. There is a need to support European operators and works to be present on the new global platforms where a growing part of the consumption of content is taking place. Failing to do so would have a negative impact both on the offer of content, and therefore on cultural diversity, on the global promotion of European cultural identity and on the level and quality of employment.

5.2.1.2. Option 2 - No action

Economic impacts

If the MEDIA programmes were to be discontinued, then their effects in relation to circulation of works and competitiveness would be lost. It is unlikely that national governments would make up for this loss because they have limited interest in the European and international dimension of the sector. There is limited robust data to demonstrate the scale of impact of the MEDIA programmes in quantitative terms. The main gaps are in understanding how beneficiaries would behave in the absence of MEDIA support and in proving causal links between support and possible effects. However, the direction of impact is clear: without a European support programme for the audiovisual industry, the diversity of choice on the market would be strongly reduced, correspondingly affecting the global growth of the market, competitiveness and employment.

Examples would be that fewer professionals with skills less adapted to market conditions and technological developments would have an impact on the number of co-productions and in the mid-term on the circulation of European films. The lack of support to distribution could additionally reduce the circulation by more than half (representing a loss of more than 100M€ p.a.) and result in the closure of a high number of cinemas.

The economic impact of these effects would be less trade within the internal market with respect to audiovisual works, lower competitiveness of European audiovisual companies and probably the disappearance of those that focus their activities on the distribution and exhibition of non-national European film. Failure to support any of the key points identified would in fact be detrimental to the whole policy for example failure to support distribution would mean that many NNE films would not be distributed. It would have an overall negative impact on the scale of the audiovisual industry in the European Union.

Social impacts

The negative economic impacts and the discontinuation of training programmes for professionals would have an overall negative impact on the level of employment and job quality within the sector. There would also be less choice of audiovisual content for consumers, and lower cultural diversity and pluralism[108].

5.2.1.3. Option 3 – Integrated programme

Economic impacts

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[108] In this regard, the interim evaluation of MEDIA 2007 (ibid.) concluded that the programme preserves cultural diversity.

Overall, the new **integrated** approach would lead to higher level of circulation of audiovisual works and of global competitiveness of the European audiovisual sector. The impact relative to the baseline would be more trade within the internal market, and more international trade. Due to the additional measures there would likely also be higher competitiveness of European audiovisual companies, and an overall positive impact on the scale of the audiovisual industry in the European Union. An increase in consumer demand for NNE works could also be expected, though the scale of this effect is uncertain as effects relating to audience building actions may act over longer timescales. The independent **video games** developers will benefit from new growth markets through facilitated access to promotion and development funding. The result would be increased competitiveness of European video games developers, especially SMEs, increased revenues, bigger market share, and widening the audience.

Increased resources for **distribution** would intensify the circulation of European audiovisual works, though the scale of impact of incremental spending relative to the initial spending is uncertain. It is expected that it would improve revenues for the sector, lead to a higher level of market integration at European and international level and a strengthening of the competitiveness of European audiovisual operators. Increased and more focused funding for sales agents would allow for the emergence of stronger sales agents with higher buying and selling power on the international market, with direct benefits in terms of competitiveness, market share and revenues at all levels of the value chain. Specific support to a number of **high-growth distribution channels** would strengthen the competitiveness of the European audiovisual sector in new distribution channels where competition from US and Asia is harsh, in relation to new markets, technologies and business models. This would globally increase circulation of European audiovisual works, especially on new distribution channels and improve the offer of content, with positive impact on cultural diversity and promotion of European cultural identity. Direct and focused support to **audience building** measures is expected to increase consumer demand for works, though the scale of this effect is uncertain. The benefits of increased demand would flow through the value chain to stimulate increased circulation of works and to improve the competitiveness of the European audiovisual sector.

Strengthening the support to Europe-based international **co-production** companies will boost co-production between European and non-European professionals and thereby contributing to further opening international markets. It is expected that it would increase number and improve quality of co-productions involving European producers and their works would furthermore circulate on third country markets.

The use of **financial instruments**[109] would improve access to finance for operators of the audiovisual sector to a larger degree than the current MEDIA Production Guarantee Fund, leading to the strengthening of their financial capacity and potentially of the commercial potential of works. Consequently the circulation of works would increase and the sector would become more competitive relative to the baseline, particularly with respect to audiovisual production. A significant increase of the size of the financial instrument would also have a stronger structuring effect, increasing the capacity of the industry to attract private sources of finance and thereby lessen their dependence on public subsidies. Given the high leverage on public money that such a financial instrument could provide and its structuring effect on the industry, direct support in the form of subsidies could be progressively shifted to financial instruments for some types of supports and beneficiaries.

[109] Further analysis is provided in the separate Impact Assessment for a new CCS financial instrument.

Moreover, the scope of financial instruments will be extended to cover the needs in working capital for distributors, early stage financing for new distribution platforms and video game developers or long term credit for exhibitors in the transition to digital cinema.

Data collection will increase transparency and dissemination of information concerning audiovisual markets. This would be beneficial for policy-makers at European and national level. Ensuring that companies involved in the sector have access to financial and legal statistics on the markets, can also work as an efficient decision-making tool. It would thus facilitate the implementation of successful strategies, making European firms more competitive. This could also encourage private investors' confidence by improving understanding of the industry's potential. Other policy tools could facilitate for example the licensing or rating of films and would therefore have a beneficial effect on the transnational circulation of films.

Social Impacts

Thanks to the increased circulation of European works and their increase presence on traditional and new distribution channels, the impact relative to the baseline would be more choice of audiovisual works for consumers, resulting in higher cultural diversity and pluralism. The focus on selected structuring and capacity building is measures expected to improve competitiveness of European audiovisual companies, improve know-how, networking and professionalism in the sector, resulting in an overall positive impact on employment, in particular in terms of job quality level.

5.2.1.4. Option 4 – Integrated MEDIA strand within a framework programme

In this option, the positive effect of the new form of a programme reinforcing EU action across the whole value chain would be combined with those of the integration of cultural and creative sectors.

The main effect of this option relative to the baseline would be to free up additional resources for the programme by exploiting synergies with the Culture programme. It seeks to improve the efficiency of a future programme through simplification and through reduction of administrative costs. The scale of any additional resources would tend to be small relative to the total programme budget, but would nonetheless enable the programme to have slightly larger effect.

A concrete example would be the positive impact of data collection for both culture and MEDIA, since extension of activities could lead to synergies and better data across the different creative sectors as a whole, facilitating investment.

The availability (at low incremental administrative cost) of instruments that currently exist in the MEDIA programme, but not in the Culture programme, would likely generate additional benefits relative to certain current and future participants in Culture programme activities; however, due to the lack of data, this gain cannot be evaluated quantitatively a this stage.

6. COMPARING THE OPTIONS

This section compares the options on the basis of effectiveness in terms of achieving objectives, efficiency, coherence and feasibility. The options are then ranked on this basis.

Apart from the no-programme option, all options provide European added value, with the extent depending on each option's effectiveness. The added value emanates from the focus on the cross-border circulation of works and the overall competitiveness of the sector with respect to international markets, as well as complementarities with national policies as explained in depth in section 2.7.

6.1. Effectiveness in terms of achieving objectives

6.1.1. Comparing the options with regard to the objectives of the programme

Section 5 describes the main effects and impacts of the options. Table 6 summarises these impacts in relation to the effectiveness of the options in meeting the objectives of the programme (as defined in section 3). In order to assess the effectiveness of the options, their results and impacts have been assessed for a series of key drivers derived from the specific objectives. These drivers are those that have been identified as most relevant to achieve the objectives, on the basis of the analysis carried out to identify the problems and define the objectives of future EU action (see points 2. and 3. above). For example, increasing support to the distribution of European works on high-growth platforms as proposed in options 3 and 4 is expected to have a direct positive impact on their transnational circulation, thereby improving the competitiveness and financial capacity of the CCS.

Data is not available to measure the results and effectiveness of each option in quantitative terms. Their expected **effectiveness** is therefore assessed in qualitative terms in comparison to the baseline, in which the MEDIA programme is carried forward with little or no change.

The *No action* option would tend to lead to lower competitiveness and financial capacity, and to lower circulation of works, as explained in section 5.

The *New integrated programme* option would lead to greater competitiveness, to greater financial capacity, and to greater circulation of works.

In addition to the benefits brought by a new integrated programme, the *Integrated MEDIA strand within a framework programme* option would also lead to improved efficiency and overall coherence of the EU approach to cultural and creative sectors.

Table 6: Comparing the options

		1 Baseline	2 No action	3 Integrated programme	4 Integrated MEDIA strand within a framework programme
	Effectiveness				
KEY DRIVERS	Improving competitiveness	0	– –	+	+
	Stimulating access to funding	0	– –	++	++
	Improving Circulation	0	– –	++	++
	Stimulating demand	0	–	++	++
	Competency in new models	0	–	++	++
	Diversity	0	–	+	+
	Leverage and structuring effect	0	–	+	+
Direct costs		0	++	– –	– –
Efficiency Management costs		0	0	+	+
Feasibility		0	0	0	+
Coherence		0	0	+	++
	Overall assessment	0	– –	+	++

6.2. Efficiency and cost-effectiveness

6.2.1. Efficiency of the EACEA management

Table 1 also compares the options in terms of efficiency. The programmes will continue to be managed centrally through the EACEA as is currently the case for both Culture and MEDIA, and will be as of 2012 for MEDIA Mundus. An interim evaluation and a cost-benefit analysis of the EACEA were carried out in 2009[110]. The analysis concludes that the Agency in general terms accomplishes it mission in an effective manner and has managed to adapt to the changing requirements of programme management and additional programme strands. It offers high quality services to the beneficiaries, and conforms to the internal procedures of the Commission and sound financial management. It achieves its objectives efficiently, thanks to such elements as simplification and harmonisation of internal procedures, a flat organisation and experienced staff.

110 Source: Interim Evaluation of the EACEA, Final Report, COWI 2009.

The main difference between the options with regard to efficiency, for which there are data[111], is the management cost for the European Union. These costs are relatively low. Assuming that the main cost is labour (EACEA employed 70 people in 2009), then the relative costs depend on the labour intensity of administering applications to the programme and awards. In general, costs as a proportion of expenditure are highest for action lines that are oversubscribed (high ratio of applications to awards), make a large number of small awards, or involve more complex selection criteria and management. For example, television broadcasting is the most efficient as it involves a relatively small number of large contracts, while development has low efficiency as it involves a large number of small contracts and has a high ratio of applications against awards, as illustrated in the table below where various actions lines are ranked from the most efficient to the least efficient in terms of the number of staff required to distribute a certain amount of money.

Table 7: Proportion of budget against headcount, 2007-2009[112]

Action line	% amount of grants	% number of contracts	% EACEA headcount
TV broadcasting	11%	4%	6%
VOD & DCD	6%	1%	3%
Distribution	47%	62%	38%
Promotion	11%	8%	14%
Training	7%	3%	10%
Development	23%	23%	30%

The relative management costs of new action lines (guarantee fund, audience building, co production funds etc) are not yet known. It is assumed that most would have equivalent management costs, while financial instruments are more efficient since they are highly leveraged and managed by a third party.

6.2.2. Operational simplifications to improve efficiency

Further administrative and management savings will come through various **operational simplifications** to be implemented by the EACEA. The simplifications in the existing programme will be continued and further use made of multiannual framework partnership agreements (which according the interim evaluation of MEDIA 2007 *"reduce the administrative burden and management costs, and strengthen the projects"*), flat rates and lump sums, e-application forms, grand decisions, removing comitology on all selection results, setting up a beneficiaries portal, electronic application forms for all strands, and electronic final report forms which would improve efficiency, as well as monitoring and measurement of results and reduce the administrative burden on applicants. Electronic application and final report forms will permit proper monitoring of project results with minimal administrative cost for the EACEA. Additionally, savings in management costs will

111 Without data to show the scale of the effect of different actions it is difficult to estimate the relative efficiency in terms of results per Euro spent.

112 Source: Interim evaluation of MEDIA 2007, EurévaL, 2009.

be made thanks to a reduction in the number of instruments and the potential merging of information points for the culture and MEDIA programmes.

Furthermore, the merger of MEDIA and MEDIA Mundus is expected to bring additional benefits related to the reduction of management costs (within the Commission and the EACEA); the publication of single calls for proposals for some of the actions rather than 2 parallel calls under MEDIA and MEDIA Mundus[113]; the adoption of a single annual work programme; a simplified decision process (ex. comitology, programme implementation networks)

6.2.3. Strategic simplifications to improve efficiency

Additional savings will come from the **strategic simplifications** as listed in point 4.2.

Overall, this ongoing simplification process is expected to improve administrative and management efficiency for the European Commission, and also reduce the administrative burden on applicants. In other respects, the options are equally efficient. There would be no extra implementation costs for Member States in any of the options as the programme would be administered by the EACEA and, in some cases, other European bodies. In particular co-funding for the MEDIA Desks and Antennae at 50% is expected to continue in the same way. It might even be reduced in the case of option 4, thanks to the merger of the information points for the culture and MEDIA programmes.

6.2.4. Cost-effectiveness analysis responding to ex ante evaluation requirements

- The new Multiannual Financial Framework allocates to the Creative Europe programme proposes a budget of €1.6 bn for the Creative Europe programme. In order to satisfy the political commitments made by the Commission not to reduce the current allocations of the MEDIA and Culture Programmes on the one hand, and the minimum size required for the new financial instrument for the Cultural and Creative sectors on the other hand, it is expected that the annual budget to implement MEDIA actions in the next MFF will be similar to the current one and is expected to amount to approximately €900 million in current prices over the period.

- **Budget breakdown in current prices over the period 2014-2020[114]**

Strands	*€ million*
MEDIA	905.5
Culture	487.2
Financial instrument	211
Cross-sectoral	75
Total	**1,678**

113 For about 2/3 of MEDIA Mundus activities no separate calls and administration of projects would be necessary (ex. Training, markets, promotion, networks)

114 These figures in current prices are based on the financial statement attached to the Creative Europe proposed decision. They differ from the Multi-annual Framework quoted in 2011 prices

Cost of outputs in the MEDIA and the cross-sectoral strands

OUTPUTS of the MEDIA Strand			
Outputs	Average cost of the output	Total number of outputs	Total cost
SPECIFIC OBJECTIVE No 1: Support the capacity of the European cultural and creative sectors to operate transnationally			
New skills and networking [outputs: number of courses/workshops/events]	0.150	425	63.7
Development of audiovisual projects (including TV production) [outputs: number of individual projects, slates, interactive works, pilots of TV series, TV productions of documentaries, fiction and animation]	0.110	2301	253.1
Support to co-production funds [output: number of co-production funds supported]	0.300	48	14.3
Audiovisual markets, promotion tools and strands [output: number of markets, market stands, online tools etc.]	0.1925	452	87.1
Innovative projects in the field of ICT applicable to AV industry [output: number of applications of ICT to the industry]	0.500	30	15.2
Sub-total for specific objective N°1		3256	433.4
SPECIFIC OBJECTIVE No 2: Promote the transnational circulation of cultural and creative works and operators and reach new audiences in Europe and beyond			
Distribution campaigns of European Non National films [output: number of contracts for automatic support to film distributors, number of films in selective support scheme to film distributors, number of films in sales agents support scheme, number of VOD platforms etc.]	0.046	6932	318.9
International grouping of sales agents, distributors and right holders [outputs: number of groupings]	0.271	40	10.8
Network of cinemas screening majority of European films [output: number of cinema networks]	13.893	7	97.2
Film festivals and events [output: number of festivals and events]	0.040	645	26
Film literacy initiatives [output: number of workshops, festivals with focus on film literacy, awards]	0.040	269	10.7
New marketing and advertising tools [outputs: number of projects establishing e.g. film community platforms]	0.040	213	8.5
Sub-total for specific objective N°2		8106	472.1
Total cost of the MEDIA Strand		**11362**	**905.5**

OUTPUTS of the innovative cross-sectoral Strand			
Outputs	Average cost of the output	Total number of outputs	Total cost
SPECIFIC OBJECTIVE No 1: Strengthen the financial capacity of the cultural and creative sectors			
Establishment of a Cultural and Creative Sectors Financial Instrument [outputs: number of loans provided by banks to operators over 7 years]	848 (EIF fees plus expected loss)	14420	211.20
Sub-total for specific objective N°1			211.20
SPECIFIC OBJECTIVE No 2: Support transnational policy cooperation			
Network of Creative Europe desks	0.226	189	42.7
Studies, evaluations and policy analysis [NB: This also includes the European audiovisual observatory]	0.317	36	11,4
Transnational exchanges and networking	1.585	4	6.4
Testing new cross-sectoral approaches	1.132	4	4.5
Conferences, seminars and policy dialogue	0.232	42	9.8
Sub-total for specific objective N°2		275	74.8
Total cost of the innovative cross-sectoral Strand			**286**

6.2.5. Could the same results be achieved at lower costs?

To answer this question the table below makes an assessment of the major assumptions on the basis of which the cost of the programme[115] has been calculated. It justifies a minimum scale for the main action lines in order to fulfill the needs of the market and optimize their results and impacts. Additionally, it proposes new implementation options with respect to the current MEDIA Programme that are expected to optimize the cost-effectiveness and cost-efficiency of the proposed actions.

Specific objective N° 1. - Capacity building

Scope of the action	**Costs**
The development of skills and competencies will improve the competitiveness of the European audiovisual sector. The Programme will fund approximately 425 projects over the period a year. **7% of total MEDIA budget**	The new programme is based on an assessment of the needs of the market, taking into account the current level of support and the new needs related to management and finance, new technologies, new business models and marketing, video games and writing for TV. The weight given to this component of the programme reflects the reality of the sector and the current average costs of training projects (€150,000).

115 Actions under specific objective n°3 are analysed in a separate Impact Assessment on the new financial instrument for CCS.

The support to project development intended for theatrical release continues to cover single projects and slates of projects. **12% of total MEDIA budget**	The support to single projects will be partially phased out for countries of high production capacity, to be targeted at players that most need it (especially in smaller countries, where evaluations have demonstrated that MEDIA support has bigger impact on the market). It will be partially replaced in bigger countries by more slate funding, intended to have a stronger structuring effect, by the financial instrument bringing higher cost-effectiveness and by prizes awarded by partner training organisations or co-production markets, to improve cost-efficiency.
The support to TV programmes will be refocused on documentaries and animation with high circulation potential, while support to fiction will be refocused on high-quality TV series with international circulation potential. **12% of total MEDIA budget**	Experience and market data shows that an average of € 110.000 grant is required to support animation and documentary projects. Based on market data, the development of and production pilots of high-quality TV series is expected to have more impact on the market and thereby higher cost-effectiveness than the support to the type of fiction projects currently supported. The new programme intends to grant € 1m for 5 pilots every year (out of a total cost of € 3m), and € 2m to cover 20% for the development of the production costs of 5 TV series per year towards the end of the period. The total TV series support would gradually reach €15m per year) and is expected to bring to the market a couple of successful TV programmes with high circulation potential every year, that could compete with the US series that currently enjoy very high viewing time on European channels
The support to the development of interactive works that did not prove to have much impact so far will be integrated to a new video games action line, that will cover the development of both self-standing video games, and those related to audiovisual works. **2% of total MEDIA budget**	A minimum budget of € 2 million will be dedicated to this action line in order to support the development of around 25 projects per year, mainly focused on mobile and online platforms. 25 is a minimum in order to ensure that some of the projects will make its way to the market and be profitable. Indeed, European products have greater opportunities there than on mainstream platforms such as PC or console, thanks to lower production costs and easier access to consumers.
A new action line will be opened to international co-production funds **1% of total MEDIA budget**	There are only a few of these funds in Europe today, with very low budgets in comparison to national funds. Even small grants of € 300.000 to some of them are expected to increase co-production between European and non-European professionals and thereby contributing to further opening international markets.

Actions in favour of the promotion of European works on international markets have proved their effectiveness in the current MEDIA 2007 programme **10% of total MEDIA budget**	A comparable budget will continue to be allocated to business to business markets and co-production forums and other promotional activities. Their average cost for the programme is estimated at € 145.000. The list of beneficiaries has been rationalised in the course of the last few years, keeping only events with a broad European dimension that have demonstrated their impact on the market. Additionally, the geographical and sectorial scope of the action has been optimized, in order to keep only one event per region and per type of markets (documentaries/TV/fiction/animation, work-in progress / finished films). This action also integrates those currently covered by MEDIA Mundus for the promotion of European works abroad and non-European works in Europe.

Specific objective N° 2. Transnational circulation

Scope of the action	**Costs**
On the 2 key pillars of the MEDIA Programme with regard to circulation of works is the support to theatrical distribution. **27% of total MEDIA budget**	Evaluations have proven that 50% of European films released outside of their national territory cross borders thanks to the MEDIA. MEDIA support to distribution will continue to be based on an automatic scheme supporting the distribution of non-national European works in cinemas, together with a selective scheme encouraging the grouping of European distributors to distribute a specific selection of middle-range budget films with high circulation potential. Automatic distribution is expected to support the transnational distribution of around 100 European films per year in an average of 5 different territories at a cost of € 40.000 per film and per territory. Selective distribution could support up to 30 films in an average of 7 territories at a similar cost.
The other key pillar of the MEDIA Programme with regard to circulation of works is the support to a cinema network **11% of total MEDIA budget**	The support to Europa Cinema under MEDIA 2007 has so far proven to have a high multiplier effect on EU investment. Indeed, 3 Euros revenue is generated for each Euro invested in the European network, and 17 Euros in the international network. In order to have sufficient geographical coverage and encourage the screening of European films in the major European cities, provide a broad offer to European citizens and produce an impact on the exhibition sector and on European cultural diversity, the level of support needs to be maintained at a

	minimum level of €13 million per year. It will cover the non-European cinemas currently financed under MEDIA Mundus.
Given the importance of new distribution platforms for the circulation of European works, the support to online or mobile innovative platforms with an appropriate editorial line and offering a broad selection of European works will need to be reinforced. **6% of total MEDIA budget**	Based on the current experience, a minimum of €350.000 per unit annually is required to allow those platforms to develop their technological infrastructure, catalogue and business model.
The support to festivals showing a minimum proportion of European films will be pursued. **3% of total MEDIA budget**	In order to maintain the geographical coverage and offer access to these works to the largest number of European citizens, the current catalogue of around 100 festivals across Europe will be maintained. Based on current experience, the minimum average support is €30.000 per year per festival.
Sales agents or film exporters are the only actors on the European market with a transnational reach. Their importance in the successful distribution of European films in other territories, including North America or Asia has been demonstrated in evaluations and consultation process. **4.5% of total MEDIA budget**	Support to this key element of the value chain should be reinforced in order to help Sales Agents exporting valuable catalogues of European works with high circulation potential at global level. Support will be concentrated on the few key players of the market with sufficient global reach and will be granted 1) In the form of automatic support (ex-post generation of grants allowance on the basis of sales performance). There is currently a deficit in the MEDIA budget of €1.6 million with regards to the current automatic support scheme, demonstrating an extra absorption capacity. Taking into account the current MEDIA Mundus budget for international sales of European catalogues, the estimated budget required is €40.000 per film and per territory. The required budget is therefore estimated at €5.000.000 for automatic support. 2) Sales support: support to costs related to and the presence of Sales Agents presence on international markets (both inside and outside Europe) and to the global promotion of European films. Based on the current experience, the annual budget required for sales support actions is €1.000.000.

In conclusion, the cost-effectiveness of the programme is optimised. The only way in which the cost of the programme could be significantly reduced would be by cutting down the number of supported projects or the number of action lines. This would endanger the viability and effectiveness of the programme. The programme's multiplier effect would be seriously at risk and so would be its expected results and impacts.

6.3. Coherence

Evaluations (the interim evaluation of MEDIA 2007 and the final evaluation of the MEDIA Plus and MEDIA Training Programmes) concluded that the programme was **internally** coherent. "*The general architecture of the programme was gradually improved over the years and has now attained a high level of sophistication. The various tools and the conditions of their implementation have been adjusted many times to in relation to three constraints: their appropriateness for meeting the sector's needs, their effectiveness, and their management 'cost'. The MEDIA 2007 Programme has been revised accordingly several times since its inception."*[116]

Overall option 3 would lead to improved internal coherence of the MEDIA Programmes, for example thanks to a refocusing on structuring actions and an integrated approach to the value chain, and option 4 would contribute to go one step further thanks to a common approach to cultural and creative sectors under the Creative Europe framework.

As far as **external** coherence is concerned, all of the options appear to be similar in that they are broadly consistent with the Treaty on the Functioning of the European Union (TFEU), Europe 2020, and the Digital Agenda, as explained in section 2.

6.4. Feasibility

Almost all actions included in the various options have been used under the MEDIA and MEDIA Mundus programme, some only since recently, others for almost 20 years. Therefore, these actions are known to be feasible as from the implementation point of view. Demand stimulation measures, co production funds, and video games could be considered as new actions. However, demand stimulation in the form of media and film literacy programmes are in place in some countries (e.g. the 21st Century Literacy project in the UK), co production funds are operating in several Member States and some forms of film marketing are already supported under the distribution action line. Similarly, national support for the games sector and TV series exist in Norway and France.

From a political point of view, the MEDIA Programme has always benefited from support on the part of the Member States and national public film institutes. The Programme has high visibility on the political scene and an excellent reputation in terms of relevance, performance and complementarities with national measures. It is expected that this support will be maintained.

6.5. Preferred option

On the basis of the analysis above, the preferred option would be **option 4** where the MEDIA strand (covering both MEDIA and MEDIA Mundus) would be integrated within a larger Creative Europe framework programme.

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[116] Source: Interim evaluation of MEDIA 2007, Euréval, 2009.

A single framework programme would have several advantages over all the other options:

- The first is that it can bring **greater policy synergies** as the different cultural sectors are generally considered collectively in the context of broader policy discussions on the cultural and creative sectors, including their contribution to the Europe 2020 strategy.

- The second is that a single programme would make it easier to achieve **knowledge transfer and cross-fertilisation** between sectors.

- The third advantage is that it can contribute to **simplifying the management** of these programmes. It would, for example, permit the establishment of single information/access points, thereby improving visibility, facilitating the access of citizens to information on EU funding, and helping to ensure the best possible service to operators.

- The fourth is that these **simplifications** would also enable some reduction in the **administrative burden** for both the Commission and Member States. Simplifications will be made to the delivery mechanisms through greater use of flat rates, grant decisions and framework partnership agreements, electronic applications and reporting, and an electronic portal to reduce paperwork for applicants and beneficiaries. Similarly, the transversal strand would enable some **savings through economies of scale** in cross-cutting areas.

- The fifth is that within this single programme a transversal **Cultural and Creative Sector Financial Instrument** could be included in order to increase access to (private) funding.

This preferred option would also respond to the growing recognition at EU level of the importance of the cultural and creative sectors and offer the best basis for a common EU strategy to focus attention on the challenges currently facing these sectors. It would target EU support on those measures that provide most EU added value by helping the sectors to optimise their potential for economic growth, job creation and social inclusion.

The "Creative Europe" framework programme would be clearly linked to the Europe 2020 strategy and seek to optimise the contribution of the cultural and creative sectors to its goals. The proposal is in line with the Communication of the Commission on the Multiannual Financial Framework adopted on 29 June 2011 ("A Budget for Europe 2020"), which indicated that synergies would be brought into the culture related programmes of the European Union and that EU funding should be concentrated on areas where it delivers high EU added value. It proposes to attribute a sum of €1.6 billion to the programme for the seven year duration.

7. MONITORING AND EVALUATION

Evaluation

Historically, it has been common practice for the Commission to conduct two evaluations of a programme: an interim evaluation and a final evaluation. For the round of multiannual programmes to be launched in 2014, the Commission’s intention is to use a single interim evaluation. Going forward, the interim evaluation would also serve as a final evaluation for the previous incarnation of the programme. The successor MEDIA programme could follow the new procedure.

In order to enable the results of the interim evaluation to be taken into account for decisions on renewing, modifying or discontinuing the successor programme in the future, it should be conducted roughly four years prior to the expiration of the successor programme, currently envisioned for 2020. If it were conducted too early, there would be too little experience to evaluate; if too late, the results could not be fully factored into the next multiannual cycle. This implies that the interim evaluation of the successor MEDIA programme should be conducted in 2016, assuming no change in the planned year of expiration. The European Commission will be responsible for this evaluation that will be carried out by a team of external and independent experts.

Monitoring

The current list of main indicators (see annex 4) to be collected and monitored will be revised once the shape of a successor programme has been finalised.

To fulfil objective n°4, new policy support actions (see 4.6) should contribute to improve market transparency and to measure the indicators on a regular basis, in particular through improved collection and analysis of to measure on context and market indicators. The new programme is expected to include closer collaboration with the European Audiovisual Observatory, whose scope could be extended.

The use of a typology per type of country (A/B/C) will be maintained, after a review of the list of countries to include in each category on the basis of the individual evolution of each market. Similarly, given the different operational modes and objectives of each action line, they should continue to be evaluated individually. The indicators should be updated on a regular basis, maintained as a time series, and modified as little as possible over the life of the programme, so as to enable trends to be monitored.

Also specific indicators should be developed to measure the circulation of European films; to evaluate the financial instruments; and the international dimension of the programme.

Annex 1: Glossary

3D: A film, television programme or game with images having three dimensional form or appearance.

Audiovisual industry: For the purposes of EU audiovisual policy, the audiovisual sector is defined as comprising or including all of the activities associated with the development, production and distribution, using any technology, of linear and non-linear audiovisual works. The focus of EU has tended to be on certain kinds of audiovisual works, including drama, animation, and documentaries, rather than on forms such as newscasts, sports, or game shows for several reasons. First, drama and documentaries fall more clearly within the provisions of the Treaty. Second, newscasts and sports are inherently more local. Third, the challenges that these works face are clearly different, and probably less severe.

Back catalogue: All the works of a specific artist, or all the books, records etc. of a specific publisher, including works that are no longer available.

Catch-up TV: Catch up TV or Replay TV is a type of service that allows users to view programmes on-demand for a period of days after the original broadcast.

Cultural and Creative Industries (CCI): industries producing and distributing goods or services which at the time they are developed are considered to have a specific attribute, use or purpose which embodies or conveys cultural expressions, irrespective of the commercial value they may have. Besides the traditional arts sectors, they include film, DVD and video, television and radio, video games, new media, music, books and press. This concept is defined in relation to cultural expressions in the context of the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions. "Creative industries" are those industries which use culture as an input and have a cultural dimension, although their outputs are mainly functional. They include architecture and design, which integrate creative elements into wider processes, as well as subsectors such as graphic design, fashion design or advertising. At a more peripheral level, many other industries rely on content production for their own development and are therefore to some extent interdependent with CCIs. They include among others tourism and the new technologies sector. These industries are not explicitly covered by the concept of CCIs used here. The term CCI is used interchangeably in this report with "cultural and creative sectors" (CCS).

Digital cinema: Digital cinema refers to the use of digital technology to distribute and project films.

Digital master: A digital version of a film suitable for projection in digital cinemas.

Digital Terrestrial Television (DTT): Television channels using digital signals delivered to homes through a conventional aerial, and converted through a set top box or integrated digital television set (IDTV).

Dubbing: Dubbing is the post-production process of recording and replacing voices on a film or television soundtrack subsequent to the original production.

EAO: European Audiovisual Observatory

Game Console: A video game console is an interactive entertainment computer or modified computer system that produces a video display signal which can be used with a display device (a television, monitor) to display a video game.

GATS: General Agreement on Trade in Services

Group A countries: France, Germany, the UK, Italy and Spain

i2i Audiovisual" is a fund, designed to facilitate access to financing from banks and other financial institutions by subsidising part of the cost of the guarantees required by these institutions and/or part of the financing itself. i2i covers three types of cost: insurance, completion guarantee, financing costs.

Internet Protocol Television (IPTV): Delivery of television content using Internet protocol within a “walled garden” network (as opposed to "online TV" on open internet), over a broadband network. IPTV has been widely used by telecoms operators to offer television over their DSL networks. IPTV can also be used by cable companies both within their own network infrastructure and as a means of expanding their service reach outside their areas of operation over unbundled third-party DSL-networks.

MFN: Most favoured nation

Multiplex: A cinema that has several different auditoriums in the same building.

NNE works: Non-National European works

Online TV: Online television (otherwise known as Internet TV, iTV or Online TV) is a television service distributed via the Internet.

Pay-TV: Pay television, premium television, or premium channels refers to subscription-based television services, usually provided by both analogue and digital cable and satellite, but also by digital terrestrial methods.

Prime Time: Prime time is the block of programming on television during the middle of the evening.

Set-top Box: A set-top box (STB) or set-top unit (STU) is a device that connects to a television and an external source of signal, turning the signal into content which is then displayed on the television screen.

Smart Phone: A Smartphone is a mobile phone offering advanced capabilities, often with PC-like functionality (PC-mobile handset convergence).

Social networks: A social network service is an online service, platform, or site that focuses on building and reflecting of social networks or social relations among people, e.g., who share interests and/or activities.

Streaming content: Audio or video files sent in compressed form over the internet and consumed by the user as they arrived. Streaming is different to downloading, where content is saved on the user's hard disk before the user accesses it.

Subtitling: Subtitles are textual versions of the dialogue in films and television programmes, usually displayed at the bottom of the screen.

VoD: Video-on-demand - VOD systems allow users to select and watch video content over a network as part of an interactive television system. VOD systems either “stream” content, allowing viewing while the video is being downloaded, or “download” in which the programme is delivered in its entirety to a set-top box before viewing starts.

“Pure play” VOD services: services that offer film and television content separately form any linear TV service

Annex 2: Evaluations and Impact Assessments of MEDIA and MEDIA Mundus

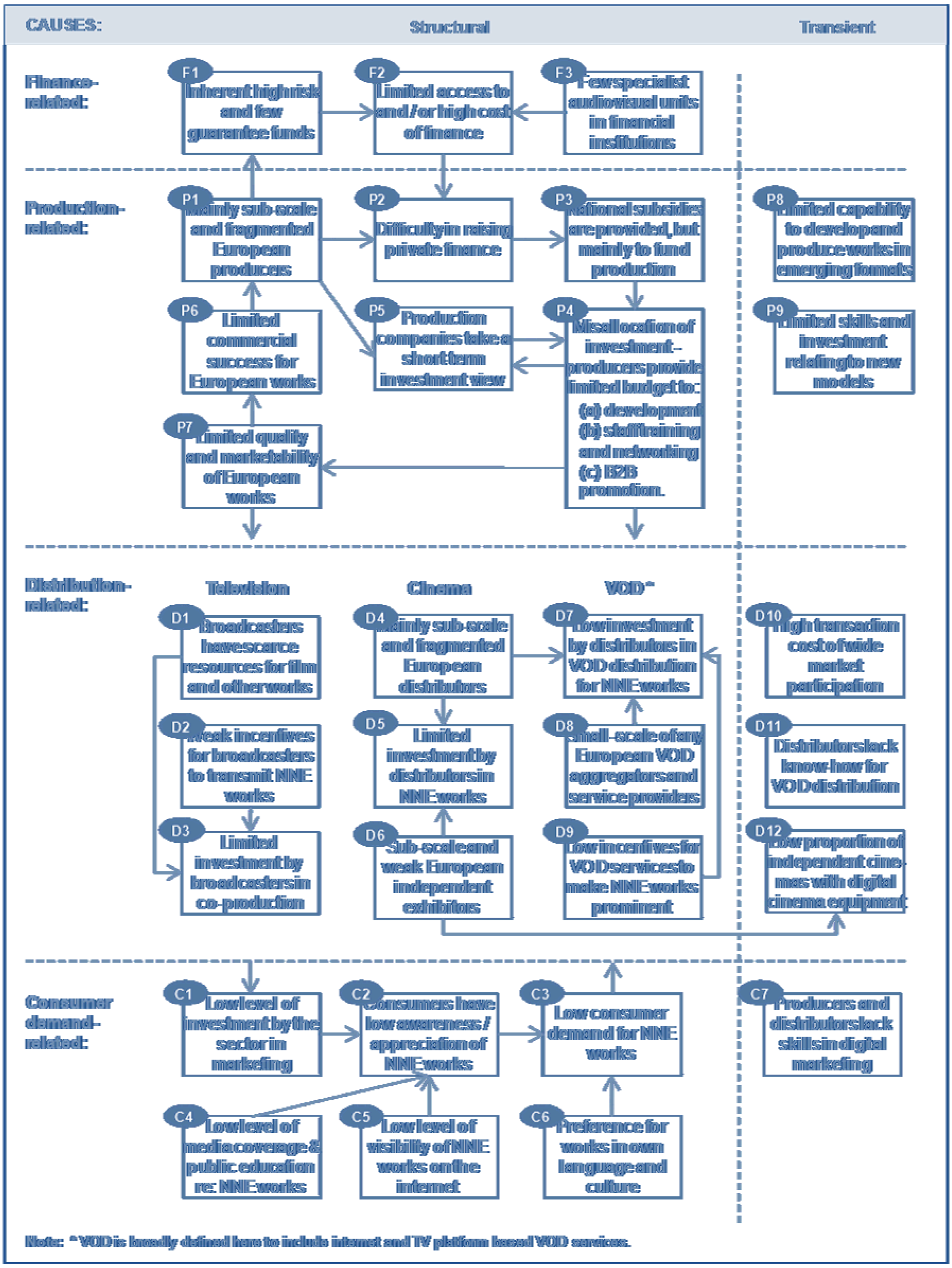
- Extended IA integrating ex ante evaluation requirements for the Commission's Proposal on MEDIA 2007 Programme (2004);
- Final evaluation of the MEDIA Plus and MEDIA Training Programmes (2007);
- Extended IA integrating ex ante evaluation requirements for the Commission's Proposal on MEDIA Mundus Programme (2008);
- Interim evaluation of MEDIA 2007 after its first three years of implementation (2010);
- IA integrating ex ante evaluation requirements in view of the preparation of a proposal for the next MEDIA programme after 2013 (2011);
- Ex post evaluation of the Preparatory action MEDIA International (2008-10) including some input for the ex ante evaluation of the MEDIA Mundus Programme in view of its renewal after the year 2013 (started in May 2011, mandated to a consortium by PPMI, Eureval/MCG).

Reports are available on
http://ec.europa.eu/culture/media/programme/overview/evaluation/index_en.htm

Annex 3: Causal Model

The European audiovisual industry is subject to a large number of problems and challenges. The figure below posits a causal model showing the interdependence of these problems and explaining the relationship between the situation of the audiovisual industry, and the problems requiring EU action as listed in the present document. The model distinguishes among causes based on their location in the value chain: production, distribution, or consumer.

Causal model for the problem



(3) Demand-side causes

Demand is limited by low consumer demand for NNE works caused often by low awareness and appreciation of NNE works. Consumers tend to prefer works in their own language and stories related to their own culture with stars they know, the specific case of the mainstream productions from the US majors set aside. The low level of investment by the sector in marketing NNE works, a low level of media coverage of NNE works, and a low level of visibility of NNE works on the internet may contribute to this. It is also possible that producers and distributors lack skills in digital marketing that would allow them to make full use of the opportunities of marketing on the Internet.

(4) Finance-related causes

For many audiovisual production companies, especially SMEs, there is limited access to and / or a high cost of finance[117]. The perceived high risk of lending to single audiovisual productions[118] and a lack of risk sharing instruments or guarantee funds to offset this risk make banks reluctant to finance audiovisual companies and projects. In addition, lending against copyright assets (the assets resulting from audiovisual production) requires a specialist approach. There has been limited development of specialist expertise within financial institutions, with only the "A countries" having a 'developed market for film banking'[119]. Indeed, the relative small size of the market limits the profitability for banks, who have difficulties covering specific back-office and expertise costs related to such specific activities.

Likewise, few banks have developed expertise relating to small-scale video game financing. Finance is also difficult to obtain at the distribution and exhibition levels of the value chain because typically companies are small and margins are low

(5) Production-related causes

A primary cause of the problem of lack of circulation of works, and low competiveness of the European sector, is the fragmented nature of the production sector, which consists of a large number of SMEs[120]. These small companies have difficulty raising private finance, and often rely on national subsidies. As these subsidies fund mostly production, there is a lack of investment by producers in other activities, including development and staff skills, and a typically short-term investment view.

This also limits the producer's ability to invest in building their capacity to work on emerging formats or new business models (e.g. 3D, interactive).

(6) Distribution-related causes

Television distribution

The budgets of broadcasters, especially advertising funded commercial broadcasters and public service broadcasters, are under pressure following the multiplication of TV and online channels and the consequent dilution of advertising revenues. This pressure leads to broadcasters having scarce resources for film and other relevant audiovisual works (fiction,

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117 Including working capital / corporate finance, interim financing, gap financing and tax incentive financing.

118 Audiovisual production is a hit-driven business in which only a small proportion of works generate strong revenues.

119 Study on the role of banks in the European film industry, PeacefulFish, May 2009.

120 In 2007, there were over 600 film production companies in France, 400 in the UK, and 200 in Germany. This implies that the median company size is small.

animation and creative documentaries). Broadcasters also have weak incentives to transmit NNE works.

Cinema distribution

Cinema exhibition is important to generate revenue. In a market where success relies to a large degree on "word of mouth", theatrical release remains an important building block for marketing and publicity in order to drive consumption in other distribution channels. Low audience demand for NNE film provides a weak incentive for distributors to take on NNE films. Furthermore, European distributors that tend to work with European films are typically national and small in scale (i.e. fragmented)[121] and cannot afford important investment in NNE works (e.g. distribution costs such as subtitling, marketing and minimum guarantees).

VOD services

The industry is in a period of transition during which consumption of film and television content on VOD services[122] is growing, and the DVD market is declining. During this period, VOD may remain relatively small in scale, generating little or no pre-sales investment in European content, which may in turn make access to finance even more difficult. Challenges for distributors include transient issues linked to high transaction cost of widely participating in the market, and lack of know-how, particularly with regard to technology and rights. Structural causes may include low commercial incentives for VOD service providers to give NNE works prominence, low investment by distributors in VOD distribution of NNE works, and the small scale of any European VOD aggregators and service providers such that the European sector may not have sufficient negotiating power to obtain favourable distribution deals with global internet-based VOD services (e.g. Apple iTunes, YouTube).

[121] Cinema distribution in Europe is dominated by major US-owned distributors that are tied to major US studios. There were 646 active theatrical distributors in the EU 25 in 2005. 14 of the leading 20 distributors in Europe are subsidiaries of US film companies, and non-US distributors had a market share of 35%.

[122] 75 VOD services include those that offer on-demand access to audiovisual content on TVs, PCs and other devices in the catch-up TV, premium VOD or other rights windows.

Annex 4: Indicative indicators

Objective	Type of indicator	Indicator	Source of data collection	Baseline
General objective: **To foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sector, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.**	Impact	The sector's share of employment and share of GDP	Evaluation Annual EU competitiveness report	Europe's creative sectors represents 3.8% of the total European workforce and 4.5% of total European GDP
Specific objective 1: **Support the capacity of the European cultural and creative sectors to operate transnationally**	Result	% of participants indicating that participation has strengthened the capacity of their organisation to work across borders % of artists/cultural operators who have increased skills relevant to their employability	Evaluation, self-assessment, monitoring, survey	

Specific objective 2: **Promote the transnational circulation of cultural and creative works and professionals and reach new audiences in Europe and beyond**	Result	% of Europeans audiovisual works in cinemas (Europe and 10 of the most important non-European markets), TVs (Europe) and digital platforms (Europe) Number of admissions for European films in Europe and worldwide (10 of the most important non European markets)	For cinemas: - European Audiovisual Observatory (European markets) - Rentrak (for non European markets: data available for the following countries: USA/Canada, Argentina, Brazil, Chili, Colombia, Mexico, Venezuela, Australia, New Zeland, South Korea) For TVs and digital platforms: - "Studies on the implementation of the provisions of the Audiovisual Media Services Directive concerning the promotion of European works in audiovisual media services*",* DG INFSO	Europeans films account for 59% of European cinemas' supply (2009, number of titles) European films = 23% of non European cinemas' supply (2009, number of titles) European Audiovisual works = 66,4% of qualifying programmes offered by European channels (2010, estimation based on a representative sample of 54 European channels) European works = 48,2% of titles available on European VOD services (2010, estimation based on a representative sample of 31 European VOD services) European films = 296 millions of admissions in European cinemas (2009) European films = 117 millions of admissions (Worlwide: 10 of the most important non European markets, 2009)

Specific objective 3: **Strengthen the financial capacity of the cultural and creative sectors**	Result	The volume of loans granted to audiovisual companies Number and geographical diversification of financial institutions involved in the financing of the sector	Evaluation, reporting from financial intermediaries	*New action*
Specific objective 4: **Support transnational policy cooperation**	Result	% of Member States and stakeholders indicating an increase in available data N° of new policy initiatives and practices in the Member states and partner countries inspired by the activities of policy dialogue and cooperation	OMC reports, evaluation, assessment monitoring survey and yearly report published by the European Audiovisual Observatory	

PART III: FINANCIAL INSTRUMENT

Leading Service: DG Education and Culture (EAC)

Other involved services: DGs BUDG, COMM, COMP, DEVCO, ECFIN, EEAS, ELARG, ENTR, INFSO, LS, MARKT, REGIO, RTD. SG and TRADE

WP reference: 2011/EAC/014 of the CLWP

Disclaimer: This report commits only the Commission's services involved in its preparation and does not prejudge the final form of any decision to be taken by the Commission.

Date: 7 September 2011

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

1.1. Background

DG EAC will propose a single "Creative Europe" framework programme bringing together the current Culture, MEDIA and MEDIA Mundus programmes. The proposal for a Creative Europe framework programme will include separate strands for Culture, MEDIA, a transversal strand and a financial instrument for the cultural and creative sectors (CCS). The current multi-annual financial framework attributed to the programme an amount of € 1,6 billion for the period 2014-2020, out of which € 180 million are currently foreseen for the financial instrument. This document contributes to the overall exercise by presenting exclusively the impact assessment of the future cultural and creative sectors financial instrument.

Organisation and timing

The renewal of the MEDIA Programme's legal basis after the expiration of MEDIA 2007, MEDIA Mundus and Culture on 31 December 2013 is included in the Commission's work programme under the reference 2011/EAC/014. The adoption of Commission's proposal for a Decision of the European Parliament and of the Council is foreseen at the end of the year 2011.

As the current MEDIA Production Guarantee Fund creates a part of MEDIA framework, it was initially planned to include the financial instrument in the Impact Assessment for the MEDIA Programme but due to the complexity of the issue it was decided that a separate IA was necessary. Due to their expertise in the setting up and managing of financial instruments, DGs ECFIN, RTD and REGIO were all consulted in the preparation for this Impact Assessment both individually and collectively through various inter-DG working groups.

Concerning the IA Inter-Service Steering Group (IA ISSG) of the MEDIA strand of Creative Europe, its first meeting was convened on the 30 September 2010 with the participation of the following DGs: COMM, COMP, ENTR, INFSO, LS, MARKT and SG. DGs BUDG, ECFIN, EEAS, ELARG, DEVCO and TRADE, were also invited at a later stage, following the decision to have a joint impact assessment for MEDIA and MEDIA Mundus and a separate one on a financial instrument for the cultural and creative sectors. During the first meeting the financial instrument was discussed as part of the IA for the MEDIA Programme. Two further meetings were held on 16 November 2010 and 10 May 2011. The final draft of this report was discussed on 29 August 2011 where the IA for the financial instrument was discussed.

This impact assessment will also serve as an ex-ante assessment for the Cultural and Creative Sector Financial Instrument complying with Art. X of the IR.

The document was submitted to the IAB on 7 September 2011. The IAB Opinion was issued on 7 October 2011.

Considerable improvements have been made to address the recommendations of the IAB. The main issues addressed are the following: market data of different CCS sub-sectors have been added and their profitability assessed, clarifications have been made with regards to the cross-border aspects of the instrument, to its European added-value and to the target beneficiaries and eligibility criteria, the reasons for discarding some options have been strengthened, sub-options have been introduced, described, analysed and compared both in qualitative and quantitative terms (using different parameters and including a sensitivity test). Smaller improvements have also been made across the document.

1.2. Consultation and expertise

1.2.1. Consultations

As the financial instrument was initially meant to be covered by the MEDIA IA, a consultation process described in the MEDIA IA is highly relevant to this IA. This section however reflects only the consultations having particular effect on the financial instrument.

Due to the diverse nature of the cultural and creative sectors which includes numerous groups of stakeholders such as from the audiovisual, music, publishing and videogame industries, minimum consultation standards have been complied with[123] in recent years, both internally and externally. The most important ones are the following: [124]

Public Consultation which was carried out by the Commission in preparation for MEDIA Programme after 2013[125] identified specific needs concerning facilitating access to finance for SMEs in the audiovisual sector by suggesting that the MEDIA Production Guarantee Fund should become larger and open to other stakeholders in the audiovisual industry than just film producers. Additionally it was mentioned that the fund should also focus on corporate financing rather than just project financing.

Public Consultation launched by the Commission's Green Paper on "Unlocking the potential of cultural and creative industries"[126]: There was a high level of consensus across respondents that one of the most important – if not the most important – **problem faced by cultural and creative SMEs is access to funding**. Respondents shared the view expressed in the Green Paper that due to the financial recession, many banks had become even more risk-adverse and, as a result, more reluctant to support cultural and creative businesses because of their high risk profile. In this connection, several respondents pointed to the need to set up guarantee mechanisms to encourage investors and banking institutions to invest in creative enterprises. Many respondents highlighted the crucial role of public finance (at both national and EU level) in this regard. As a good example, several respondents mentioned the MEDIA Production Guarantee fund, "*which will help the audiovisual sector to develop new working and assessing methods and which could be used also for the growing of SMEs*".

EIB Group (European Investment Bank and European Investment Fund): During a meeting with EAC in February 2011 the EIF expressed its interest in setting up a financial instrument which would be more focused to service the needs of the cultural and creative sectors than other previous instruments such as the transversal SME support provided by DG ENTR Competitiveness and Innovation Programme (CIP) (which is managed by the EIF). Since then EAC has been exploring this option with the EIF in cooperation with other

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123 http://www.cc.cec/home/dgserv/sg/stakeholder/index.cfm?lang=en

124 For more information on consultation and expertise see Annex 2 and the IA for MEDIA Programme, Chapter 1.3.

125 A summary of the online consultation's results regarding the MEDIA Programme after 2013 is available at: http://ec.europa.eu/culture/media/programme/docs/overview/online_consultation_summary_en.pdf, further details provided in IA MEDIA.

126 http://ec.europa.eu/culture/our-policy-development/consultation-on-green-paper_en.htm

Commission services such as DG ECFIN and DG RTD, the European Investment Bank, various financial institutions and representatives from the cultural and creative sectors.

Working Group on EU Equity and Debt Platforms (DG ECFIN): The College agreed on 21 January 2011 on the principle of a more systematic and standardised use of financial instruments based on the EU Equity and Debt Platforms to ensure a high degree of standardisation and efficiency in the design and management of such instruments. In light of this, DG ECFIN organised a working group to discuss and contribute to Communication Paper "Issues note on the EU Equity and Debt Platforms" to be used as guidelines for Commission services planning to set up such an instrument. The main concerns for DG EAC were related to the proposed multi-policy/cross flagship and the minimum size requirements of future Commission FIs.

Inter-Policy DGs Working Group on Financial Instruments (DG RTD): The group consisted of the following DGs CLIMA, COMP, ECFIN, ENER, ENTR, ENV, INFSO, MOVE, and REGIO and met on several occasions from the beginning of 2011 to discuss a common paper named "Financial instruments supporting research and innovation in the next Multiannual Financial Framework: an integrated approach". The document has been circulated to the Director Generals in June 2011.

Seminar: Facilitating access to funding for cultural and creative SMEs: The half day seminar on "Facilitating access to funding for cultural and creative SMEs" was organised by the DG EAC on 3rd May 2011 and brought together representatives from European financial institutions which have been involved in funding for SMEs operating in the cultural and creative sectors (CCS), companies from the CCS and experts who have been working on the topic of access to finance for CCS. Additionally, officials from different Directorate Generals of the European Commission were present. The main conclusions from the Seminar were that was necessary to develop expertise and knowledge transfer, promote investment readiness for CCS, better communication towards retail banks about the existence of guarantee schemes, ensure sufficient flexibility within future financial instruments.

1.2.2. External expertise

London Bank Expert Roundtable (2009): Following the Study on European Film Banking (2009)[127], the Commission carried out roundtable discussions with European financial institutions on the conclusions of the study which stated that following the crisis, banks were more reluctant to have an active role in the sector and that one way of encouraging them to make credits available to audiovisual producers would be through a **third-party guarantee mechanism**. The financial institutions agreed on that such a mechanism would facilitate the access to bank credits for producers of audiovisual content and create closer links between banks and SMEs in the audiovisual sector.

The Commission mandated a consortium led by WIK-Consult[128] to carry out an **"Impact assessment integrating ex ante evaluation requirements in view of the preparation of a proposal for the next MEDIA Programme after 2013."** The contractor collected market data and compiled relevant information deriving from the various sources mentioned above.

[127] http://ec.europa.eu/culture/media/programme/overview/evaluation/studies/index_en.htm

[128] The study was conducted by a team led by WIK-Consult and comprising Plum, IDATE, TNO, and senior expert Prof. Dr James Kahan, under Framework Contract for the Provision of Impact Assessment and Evaluation-Related Services to DG INFSO (Contract number: 30-CE-0208155/00-08).

Results of the contract in relation the financial instrument were used mainly for describing problem definition and analysing the problems.

The results of all studies, evaluations, working groups and public consultations have been reflected in this Impact Assessment report.

2. CONTEXT AND PROBLEM DEFINITION

2.1. The policy context

The EU 2020 strategy sets three priorities for the future of Europe: Smart growth, developing of an economy based on knowledge and innovation, sustainable growth promoting a more resource efficient, greener and more competitive economy and inclusive growth fostering a high-employment economy delivering economic, social and territorial cohesion. The cultural and creative sectors contribute to achieving these goals, namely through promoting creativity and diversity which are essential drivers of an innovation and knowledge based economy and through strengthening the competiveness of the sectors leading to new jobs.

The EU budget review[129] makes a strong case for increasing the leverage effect of the EU budget and gives particular relevance to financial instruments, as catalyst of public and private resources, to achieve the strategic investment levels needed to implement the EU 2020 strategy. Accordingly, the next Multiannual Financial Framework is expected to foresee a stronger role for financial instruments which have a multiplying effect on EU budget investments and mobilise additional or private co-investments to address market failures in line with Europe 2020 policy priorities.

In accordance with the principles presented in the EU Budget Review, new financial instruments are expected to generate EU added value, create synergies between Europe 2020 objectives, be cross-policy and cross-sector, respect state aid principles, and be financed through different budget-lines linked to the policy areas concerned. Furthermore, potential financial instruments targeting the same policy area and/or providing similar products should as much as possible be integrated.

Spending EU budget through financial instruments is not a new feature; **the term "innovative" is used to differentiate the instruments from the non-repayable grant approach**. Financial instruments thus cover a broad range of cases where financial support from the budget is provided in other forms than pure grants.

Financial instruments **cannot replace grant funding** but complement it by lending principally repayable support to projects through equity/risk capital, guarantees to intermediaries that provide lending to a large number of final beneficiaries who have difficulties to access finance (e.g. SMEs, infrastructure project companies, people in risk of social exclusion, etc.), or risk sharing with financial intermediaries in order to increase the leverage capacity of the EU funds.

[129] EU Budget Review — COM(2010) 700 of 19.10.2010

To distinguish financial instruments from pure grants, the Commission's proposal for amendment of the FR[130] defines financial instruments as "*Union measures of financial support provided from the budget on a complementary basis in order to address, when necessary and duly justified, one or more specific policy objectives. Such instruments may take the form of loans, including loans with interest rate rebates, guarantees, equity or quasi-equity, equity/debt investments or participations, facilitated where appropriate by the Union through risk-sharing instruments, possibly combined with grants*".

Financial instruments can be used in areas where projects have a revenue generating capacity. They are in particular relevant in fostering the capacity of the private sector to deliver growth, job creation and/or innovation: support to start-ups, SMEs, mid-caps, micro-finance, knowledge transfer, investment in intellectual property.

2.2. The historical context

Since 1991 MEDIA, the EU's support programme for the European audiovisual industry has supported the development and distribution of thousands of films as well as training activities, festivals and promotion projects Europe-wide. From 2001-2006, more than half a billion Euros were injected into 8000 projects from over 30 countries.

The public consultation carried out by the Commission in preparation for MEDIA 2007 identified areas where changes were required. Amongst others, specific needs were identified for targeted action in the field of digitisation and measures to **facilitate access to credit for small and medium-sized businesses**. As a result, decision No 1718/2006/EC establishing the MEDIA 2007 provided for an undefined[131] possibility for financial intermediaries to benefit from the MEDIA Programme.

The Commission therefore in 2010, set up a four year **MEDIA Production Guarantee Fund** (2010-2014, €8 million) in the framework of the MEDIA 2007 Programme in view of facilitating access to private financing for SMEs in the audiovisual sector. The Fund is used to guarantee 50-55% of the loans granted by local banks to film producers in order to reduce their risk and increase their lending activities in favour of the sector. All financial institutions from a participating country of the MEDIA Programme are eligible to receive the guarantee, provided that the end beneficiary is an independent European production company seeking finance for an eligible film project[132]. Since the Fund only became fully functional to issue guarantees in early 2011, the impact is yet to be seen but section 2.5 Baseline, gives a brief overview of the Fund´s achievements to this date.

Additionally, the MEDIA Programme has been operating separately from the MPGF, the i2i Audiovisual scheme, supporting the financial costs of film producers such as financial interests related to bank loans or insurance[133]. The scope of this action line is however limited. Indeed, it supports the cost of interest related to bank loans, but does not effectively help

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130 Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the annual budget of the Union, COM(2010)815 final, as proposed modified by revised Presidency proposal of 8 April 2011.

131 This support could be implemented through equity investments, loans, guarantees or direct grants. The study on film banking and roundtable discussions with banks suggested that a guarantee fund would have the greatest impact.

132 See definitions on http://www.ifcic.eu/media-production-guarantee-fund-1/eligibility-criteria-for-the-mpgf-guarantee.html or http://www.audiovisualsgr.com/audiovisualsgrmgf/howto.asp

133 http://ec.europa.eu/culture/media/programme/producer/i2i/index_en.htm

producers to have access to these bank loans in the first place. Furthermore, the interim evaluation of the MEDIA 2007 has underlined its lack of impact due to its low annual budget of only € 3 million.

2.3. The European CCS market

The market context

In the era of globalisation and international competition, the revenue potential of cultural and creative sectors is just as important as the access to commodities or the reliance on a manufacturing base.

This potential is demonstrated by the fact that the cultural and creative sectors account for **4.5% of the EU's GDP** in 2008 and employ some **3.8% of its workforce**[134]. Overall employment in creative sectors increased by an average of 3.5% a year in the period 2000-2007 compared to 1% a year for the total EU economy[135].

The study "*The Economy of Culture*" carried out by KEA in 2006 makes a distinction between

a) The “cultural sector” includes

Non-industrial sectors producing non-reproducible goods and services aimed at being "consumed" on the spot (a concert, an art fair, an exhibition). These are the arts field (visual arts including paintings, sculpture, craft, photography; the arts and antique markets; performing arts including opera, orchestra, theatre, dance, circus; and heritage including museums, heritage sites, archaeological sites, libraries and archives).

Industrial sectors producing cultural products aimed at mass reproduction, mass-dissemination and exports (for example, a book, a film, a sound recording). These are “cultural industries” including film and video, video-games, broadcasting, music, book and press publishing.

b) The “creative sector”

In the “creative sector”, culture becomes a “creative” input in the production of non-cultural goods. It includes activities such as design (fashion design, interior design, and product design), architecture, and advertising. Creativity is understood in the study as the use of cultural resources as an intermediate consumption in the production process of non-cultural sectors, and thereby as a source of innovation.

The total turnover of these sectors in Europe amounted to **€ 654 billion** in 2006. The figure below demonstrates how the turnover is split between the different sub-sectors. It shows that those sectors that generated most turnover were mainly the service providers and content

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134 "Building a Digital Economy: The importance of saving jobs in the EU’s creative industries", TERA Consultants, March 2010. According to the Federation of European Publishers, book publishing employs 135,000 people full time and contributes approximately € 24 billion to EU GDP. The audiovisual industry in Europe produces more than 1,100 films per year and employs over 1 million highly qualified people. (Source: Multi-Territory Licensing of Audiovisual Works in the European Union, KEA study, October 2010.)

135 European Competitiveness Report 2010

providers[136]. For film and video the EU turnover size was estimated to be €17 billion while for television and radio the turnover was €48 billion[137]. The size of the Europe, the Middle East and Africa (EMEA) video game market size was €12, 3 billion in 2008[138] while the value of EU recorded music sales in 2008 was € 7 billion[139].

Figure 1.

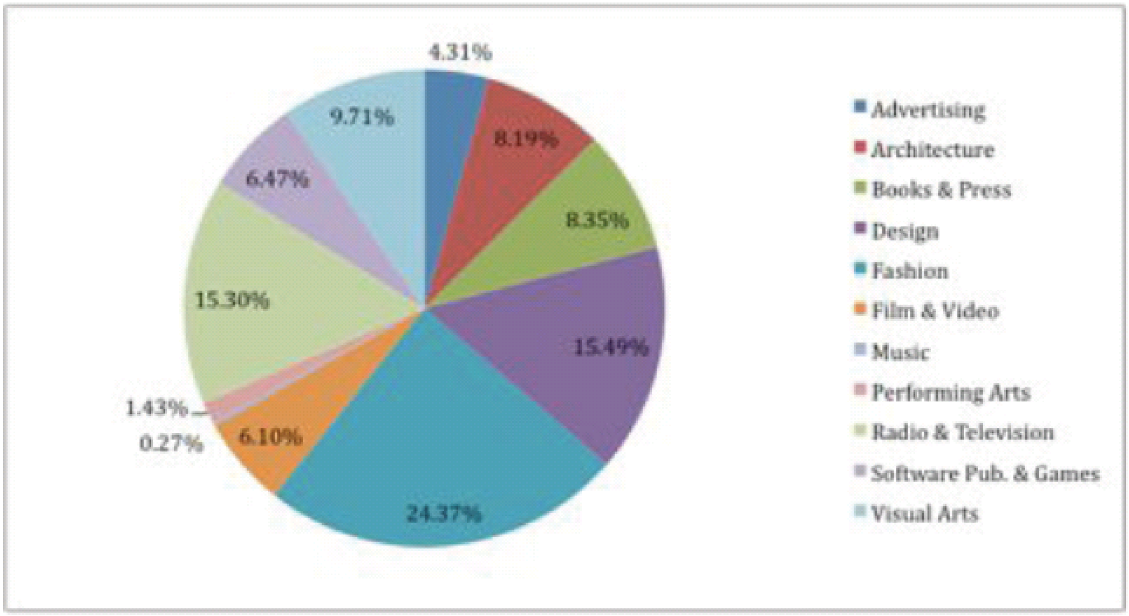

Figure 7: Total Turnover per Industry
(Source: Eurokleis 2009, statistical analysis)

Market trends

In the years leading up to the economic downturn, namely 2002-2008, trade in goods and services from the creative industries grew on average 14 % annually, even after taking into account the sharp contraction of world demand and international trade in the final months of 2008. As the decline in international trade affected all economic sectors, it is still premature to draw a definite picture regarding its adverse impact on the creative economy.

For instance, world exports of visual arts doubled in six years, reaching $29.7 billion in 2008. The same trend was noticed for exports of audiovisual services, which amounted to $13.7 billion in 2002 and reached $26.4 billion in 2008, although much of the trade in audiovisual products occurs in the form of rights transactions as the means for buying and selling creative content, for which data is unavailable.

These figures are still highly underestimated and cannot capture the more vibrant reality of the global markets of creative industries, due to limitations in statistical data and

136 Study on the Entrepreneurial dimension of CCIs (2011) http://ec.europa.eu/culture/key-documents/doc3124_en.htm

137 PWC report on Media and creative industry, 2008

138 IPTS. BORN DIGITAL / GROWN DIGITAL: Assessing the Future Competitiveness of the EU Video Games Software Industry. 2010

139 http://www.impalamusic.org/info_03_indfact.php

methodologies that obscure the revenues from the trade of copyrights and for some key services sectors. Indeed, these represent the major share of key creative industries such as the music and film industries, TV and radio broadcasting, performing arts, and trade in digitized creative content. Just to give an idea of the magnitude of the creative economy and its overall economic impact, the PwC 2008 study forecast that the global entertainment and media industry alone will be injecting around $2.2 trillion in the world economy in 2012.

Moreover, fast-paced technological progress has altered the way people do business and disseminate, receive and consume products and services, such as music and audiovisual works. New business models are developing and traditional ones need to adapt. New economic players and service providers are entering the market. Consumers are changing the way they interact with the market place. Innovative SMEs struggle to benefit from these developments, because they are often undercapitalized which in its result leads to the limited circulation of cultural goods and services.

2.4. Identification of problems for the CCS and their underlying factors

2.4.1. The structural weaknesses of Cultural and Creative Sectors[140]

European cultural markets traditionally show some failures limiting their economic impact which is due to their **fragmentation** in terms of both production structure and the general framework in which they operate. Beyond fragmentation, other historical structural weaknesses of the CCS in Europe are the **chronic underinvestment and undercapitalisation of companies from private sources of financing.**

Around 80% of enterprises in the CCS are sole traders or micro-SMEs employing only a handful of people. Within this majority of 'microenterprises' almost 60% consist of very small micro-businesses with only 1 to 3 employees[141]. The numbers of large-scale enterprises is marginal, at less than 1%, but are responsible for more than 40% of the annual turnover. This characteristic of the CCS is often called the "missing middle": a very small number of operators are middle sized enterprises (only 2.5% have between 50 and 249 employees). The study on "*Entrepreneurial dimension of CCIs*" indicates that there is a substantial difficulty for small enterprises to grow into medium-sized firms. It concludes that the gap between the bigger players and the micro-SMEs renders the growth of micro-SMEs difficult and increases the difficulty in accessing markets for the smaller players. As can be seen from the figures below, there are extreme differences in turnover and asset distribution between bigger and smaller companies[142].

Figure 2.

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140 These issues are widely explained in the respective Impact Assessments of the MEDIA and Culture strands of the Creative Europe Programme

141 See 2011 Study on the Entrepreneurial dimension of CCIs http://ec.europa.eu/culture/key-documents/doc3124_en.htm

142 See 2011 Study on the Entrepreneurial dimension of CCIs http://ec.europa.eu/culture/key-documents/doc3124_en.htm

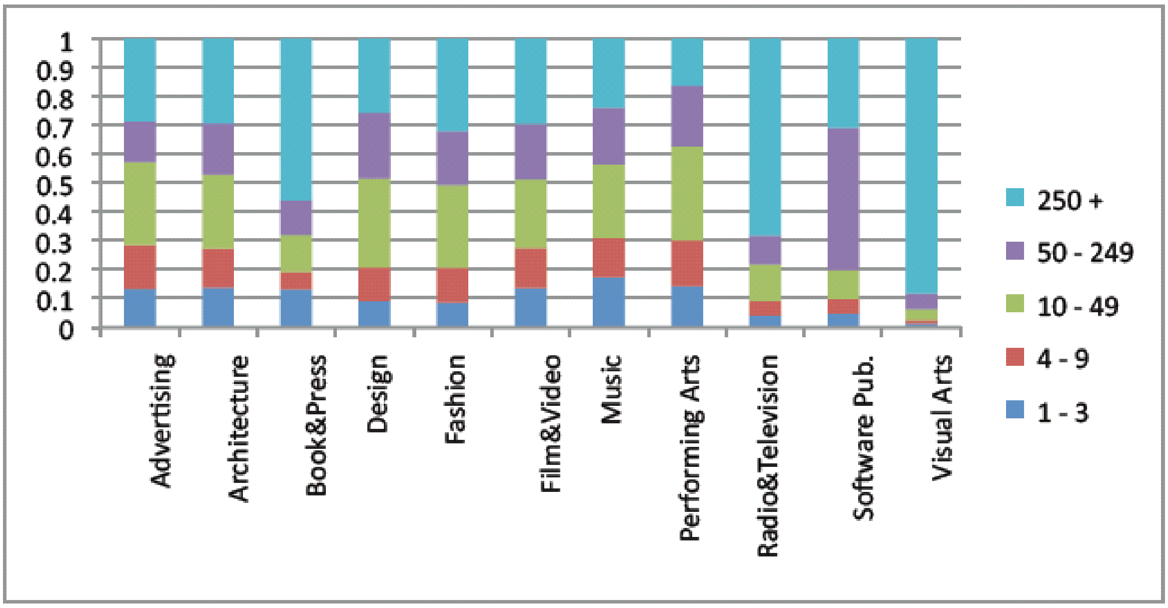

Figure 3: Distribution of Total Turnover among Industries per size class of enterprise
(Source: Eurokleis 2009)

Figure 3.

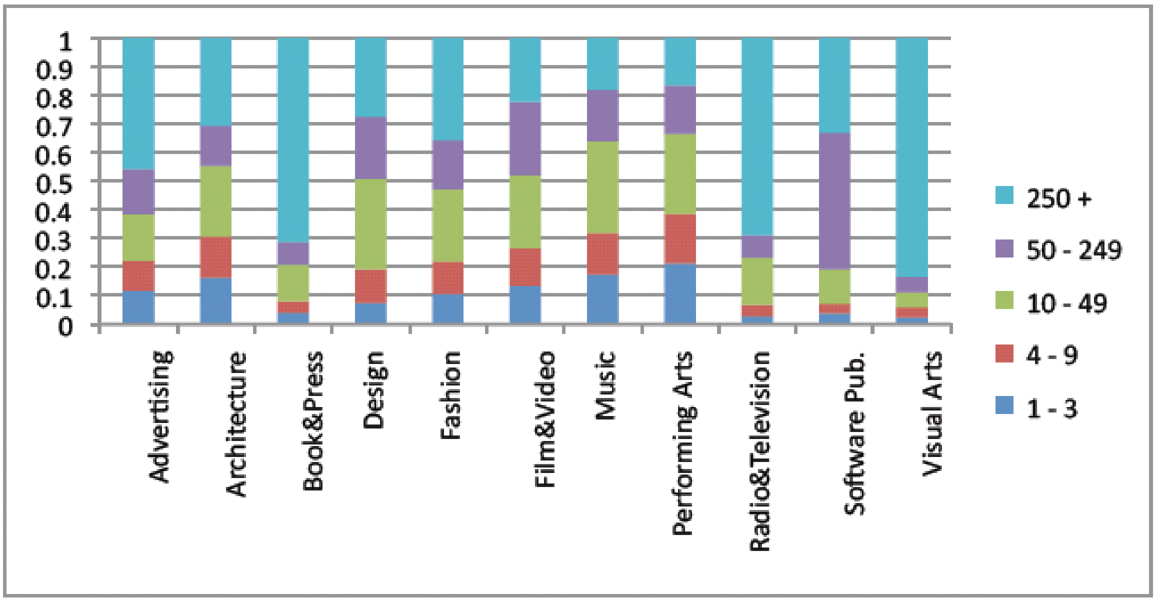

Figure 4: Distribution of total Assets among Industries per size of enterprise
(Source: Eurokleis 2009)

Taking note of these figures, it is logical to assume that those CCS enterprises which are in the most need for public support, are those which are employing the fewest employees and those which do not need assistance are large-cap companies. A target group of a possible financial instrument for the cultural and creative sectors is therefore SMEs operating in these sectors along with organisations which demonstrate their capabilities to repay loans.

The cultural and creative sectors also suffer from stereotypes when it comes to assessing its economic performance. Culture is often perceived as a non-economic activity. Many believe that culture and the economy are two separate worlds, those who recognise the economic value of culture tend to perceive the cultural sector as poor in relation to its economic importance. The perception is that of individual artists, heavily subsidised public organisations or of a "cottage industry" which is destined to succumb when confronted with market realities. However, the study "*The Economy of Culture*"[143] demonstrated in 2006 that the creative and cultural sectors in Europe are as competitive as other industry sectors – in some cases even more by comparing their productivity and profitability with other sectors, which are important factors when assessing the risk related to lending money to a company.

Table 1. Productivity and Profitability of the various CCS

	Productivity[144]	**Profitability**[145]
Design	1.92	10.5%
Architecture	1.43	8.8%
Visual Arts	2.04	11.3%
Performances	1.72	8.5%
Film and Video	2.02	11.7%
Radio and TV	1.65	9.9%
Advertising	1.50	5.4%
Press and publishing	1.35	7.9%
Heritage	1.21	8.6%
Video Games	1.66	7.7%
Music	1.43	8.9%
Tourism	1.44	7.8%

Source Amadeus – Data elaborated by Media Group (The Economy of Culture in Europe – KEA – 2006)

The need for **productivity** largely depends on the investment intensity of a given industry. The higher the intensity, the more productive the industry in question must be in order to cover investments. Manufacturing industries with higher capital costs usually need higher productivity rates than the services industry. The typical productivity level of service industries, similar to those constituting most of the cultural and creative sectors, is between 1.2 and 1.9. The average productivity level for the European cultural & creative sector was 1.57 in 2003. The study identified that the best performing sectors in 2003 terms of productivity were design, visual arts and film & video. The biggest increase in productivity

143 KEA European Affairs - 2006

144 Ratio between value-added and employment costs. Productivity shows how much value is created for every Euro spent on employment costs (wages, salaries and social costs)

145 Operating margin of companies active in the cultural and creative economy. Profitability shows what percentage of the turnover is left after the deduction of operating costs.

was, however, recorded in the video games sector, one of the fastest developing CSS in Europe.

As a general rule, a profit margin of 5% up to 10% is considered as an indication of a healthy level of **profitability** for service industries similar to those included in the CCS. The average European level of 9% is therefore a sign of a highly satisfactory profitability existing in the cultural & creative sector across Europe.

These findings are important both in terms of risk assessment for private financiers and public policy making in the CCS. Indeed, the perception of sectors surviving only thanks to heavy subsidies which are incapable of handling the reimbursement of loans has to be mitigated on the basis of their performance in terms of productivity and profitability.

Furthermore, the evidence above strengthens the case for distributing public support through financial instruments such as guarantees instead of offering direct subsidies. Various sub-sectors of the CCS such as film producers, video-game developers, music and book publishers which can all demonstrate productivity and profitability should be encouraged to mitigate their reliance on public handouts and instead adopt a more business-like approach by using public financial instruments.

2.4.2. Access to finance for SMEs

Previously we have stated that the overwhelming majority of European enterprises which are operating in the CCS fall under the definition of a SME[146] and therefore share the same challenges and difficulties with regards to access to finance as conventional SMEs do. However, it is accurate to state that cultural and creative SMEs are confronted with additional barriers to access to finance which will be explained later in the text.

According to a 2009 Eurobarometer survey, bank loans are by far the main source of external financing for SMEs[147] but it is difficult to measure the financing gap in terms of the lack of access to bank loans among EU SMEs. In general it can be assumed that at the EU27 level, in recent years an estimated 5%-10% of enterprises had their applications for bank loans rejected or could only get part of the funding while another 5%-7% did not apply because of possible rejection[148]. If these numbers are applied to the 20.7 million SMEs in the EU[149], the number of firms having difficulties in obtaining banks loans is in the region between 2 and 3.5 million[150].

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146 Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the table

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

147 The Gallup Organisation, Eurobarometer 271, Access to Finance, September 2009, commissioned by DG ENTR in collaboration with the ECB.

148 Based on statistics from the 2009 Eurobarometer survey

149 EC. *European SMEs under Pressure – Annual Report on Small and Medium Sized Enterprises 2009.2010*

150 As it is difficult to estimate the total percentage of SMEs applying for bank loans (vs. those who haven't applied for bank loans), this example makes the assumption that all SMEs would like to receive a bank loan.

It is important to bear in mind that the statistics here above do not necessarily reflect a market failure in all cases as there might be credible reasons for the limited or non existent access to loans for some SMEs. However, it can be estimated from various industry sources and studies that about 15-30% of the SMEs who have had their loan applications rejected should in fact have received loans but due to their informational asymmetries, their comparatively high transaction costs and their lack of tangible collateral, they fail to obtain bank loans.

By assuming that in only 20% of the cases above the reason for the lack of bank loans is the lack of tangible collateral, the number of SMEs facing the lack of access to bank loans can be estimated at between 400,000 and 700,000. Considering an average individual loan amount of €100,000 (based on average loan ratios for AECM members), the total value of the financial gap due to the lack of collateral can be estimated at € 40- € 70 billion[151].

By applying the methodology used for SMEs here above to the 1.4 million[152] European SMEs operating in the cultural and creative sectors[153], **the financial gap due to a lack of collateral in the CCS can be estimated at €2.8 billion to €4.8 billion in terms of bank loans**[154].

The following reasoning explains why access to finance is more challenging for SMEs in the cultural and creative sectors compared with conventional SMEs:

1. Firstly this is due to the **intangible nature** of many of their assets (in particular IPR[155]), which are usually not reflected in financial statements[156].

2. Secondly, unlike other industrial products CCS products are generally not mass-produced. Every film, book, opera, videogame can be seen as a **unique prototype**[157].

3. Thirdly, **the demand for financial services** of cultural and creative SMEs is often not substantial enough for banks to find them commercially interesting. Indeed, dealing with these industries require specific skills (in the areas of market intelligence, intellectual property rights, risk analysis of cultural and creative projects, financial analysis of cultural and creative SMEs), needing a certain level of investment in terms

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151 Based on information from the European Association of Mutual Guarantee Societies (AECM)

152 See KEA, *The Economy of Culture in Europe*, 2006

153 Assuming the same average loan value of €100,000 is also applicable to CCS. In some sub-sectors, the average loan value is higher (film production, video games), in others, the average value is lower (film development, cinema theatres), others are more or less in the same range (working capital for distributors, music companies).

154 Applying the same assumptions in terms of proportion of SMEs that did not obtain a bank loan (10-17%) due to a lack of collateral (20%) to the 1.4 million enterprises in the CCS, we can estimate that 280,000-476,000 SMEs in the CCS did not obtain a bank loan due to a lack of collateral. Assuming that the average amount of a bank loan is €100,000, the financial gap can then be estimated at between € 2.8 and 4.76 bn.

155 Intellectual Property Rights: under intellectual property law, owners are granted certain exclusive rights to a variety of intangible assets, such as musical, literary, and artistic works; discoveries and inventions; and words, phrases, symbols, and designs. Common types of intellectual property include copyrights, trademarks, patents, industrial design rights and trade secrets in some jurisdictions.

156 The International Accounting Standards Board (IASB) offers some guidance (IAS 38) as to how intangible assets should be accounted for in financial statements. In general, legal intangibles that are developed internally are not recognized and legal intangibles that are purchased from third-parties are recognized.

157 The production of audiovisual works or other creative content such as books are produced project by project creating a new prototype for every new project whereas other industries can lead one prototype to mass production.

of training and resources. However, the size of this specific market does not justify the creation of individual specialised CCS departments within banks. There is therefore little value for them to engage with the sector.

4. Cultural and creative SMEs often lack business and management skills and face specific challenges in achieving **investment readiness**[158]

5. Finally, there is often a **shortage of reliable data** which limits the possibilities of SMEs in the sector to get credit funding as financial institutions often rely on statistical evidence in their due diligence for loan applications.

As a consequence financial institutions do not have the tools to estimate the value of the intangible assets of cultural and creative SMEs, to analyse their business plans and to understand their risk profile. The current practice of the few banks that do grant loans to players of the sector is therefore to ask for personal collaterals and guarantee bank loans on the entrepreneurs' private assets. It is important to note that the abovementioned challenges apply to all cultural and creative sectors, as confirmed throughout the various consultations with stakeholders, studies and assessments listed in section 1.3. The shortage of data concerning the CCS, can be furthermore observed through the lack of statistics of the actual capital needs of the various sub-sectors. Although various studies have been carried out on the lack of access to financing for the CCS, the distinction between needs for banks loans or equity has yet to be comprehensively mapped and documented. Indeed, very few financial institutions have granted credits to companies in the CCS. However, banks were willing to provide financing to individual managers / owners / producers via personal credits, against personal guarantees (private houses/properties or equivalent tangible assets).

Further investigations are being carried out on this issue and an expert group on access to finance for the CCS, composed of the different stakeholders (SMES, banks, experts and policymakers) has been set up by the European Commission Additional information on the scale of current loans to CCS and remaining gaps, along with the average size of loans, maturities, types and costs of capital/interest rates will thereby be collected.

The current MEDIA Production Guarantee Fund is already providing the Commission with such information but it is confined to the sub-sector of film production.

2.4.3. A new market challenge for Cultural and Creative Sectors[159]

Additionally, the economic and financial crisis has led banks to refocus their activities on core business and move away for what are perceived as higher risk sectors such as the CCS, making **access to finance** for SMEs of the sector even more difficult.

Also, presales of content to television channels or co-production deals which have traditionally constituted a key resource for the production of audiovisual works for example are getting scarcer. Indeed, the economic crisis, the multiplication of the number of channels and the changed viewing habits in particular of the young audience has led to a drastic

[158] Ability to understand investors' concerns, to understand the differences between the types of financiers, to fulfil specific financial requirements of banks and investors

[159] They are more widely explained in the respective Impact Assessments of the MEDIA and Culture strands of the Creative Europe Programme

reduction of their advertising revenues. Buying less content for lower prices, television channels and other content distributors have reduced their contribution to the sector.

Other consequences of the difficult economic situation are the reduction of public support within a certain number of Member states and the tendency for each territory to focus their efforts on their own national cinematography or cultural production rather than opening up to other European countries.

As a result, cultural and creative SMEs encounter specific difficulties **in accessing finance,** both in terms of credit and equity. While this is a common challenge for SMEs in general, the situation is significantly worse for cultural and creative SMEs, with serious consequences on competitiveness, at a time when they have to find innovative business models for the new digital globalised environment. At a global level, the lack of private investment in the European audiovisual sector can also be seen when comparing for example the amount of investment **per capita** in film production, where the USA invests USD 40 / per capita, Japan USD 20 and Europe only USD 13[160].

2.4.4. Two problems to be addressed by Financial Instrument

On the basis of the above analysis, there are essentially two key problems to be addressed at EU level which applies to all cultural and creative sectors:

- The difficulties for cultural and creative SMEs and projects in **accessing bank credits**
- The limited spreading and dissemination of **expertise** among financial institutions in the area of financial analysis of cultural and creative SMEs and projects throughout the EU.

The groups affected by the problem include the following European entities:

- Audiovisual producers and production companies
- Cinema exhibitors
- Providers of video-on-demand services
- Publishers of video games
- Publishers of books, newspapers, journals and periodicals
- Entities involved in trading activities in book, newspapers, journals or periodicals
- Booksellers
- Publishers of sound recordings
- Distributors of sound recordings
- Entities involved in trading activities in sound recording

160 Calculations made on the basis of statistics from Screen Digest.

- Entities involved in creation, production, distribution, promotion or trading activities in other cultural and creative sectors such as the performing arts, visual arts, multimedia, heritage, design or the press
- Distributors and sales agents (film, TV, video games, books and music)
- Financial institutions such as banks, guarantee financial institutions and other entities such as investment funds (VCs) and business angels
- Policy makers

2.5. The baseline

2.5.1. Actions in favour of access to finance in the MEDIA Programme

In the context of the MEDIA 2007 Programme, the i2i Audiovisual scheme, already described in section 2.2 has been open to producers of audiovisual content to support part of the costs related to bank credits, insurance and completion bonds.

The MEDIA Production Guarantee Fund launched in 2010 facilitates access to private sources of finance uniquely for film producers via a guarantee mechanism that encourages banks to grant them credits by sharing the risk incurred. With a total budget of € 8 million for duration of 4 years, it is expected to generate over € 100 million bank credits, thanks to the leverage effect of the guarantee mechanism. The MPGF was open to receive applications in May 2011 and has to this date issued more than a dozen guarantees allowing to raise bank credits for a value of around €18 million in about ten different member states[161].

The management of the fund has been delegated to two financial institutions with specific expertise and experience in financial services for the CCS: Audiovisual Aval, S.G.R. (Audiovisual SGR) in Spain and Institut pour le Financement du Cinéma et des Industries Culturelles (IFCIC) in France. The systems proposed to reach the objective by each organization are based on two different financial mechanisms.

IFCIC offers solidarity with other guarantee funds it manages on behalf of the CNC[162], the French public fund in support of the audiovisual industry[163]. Solidarity means that in case the default rate is higher than expected and too many loans are not reimbursed, the other fund, called the Fonds de Garantie Principal, will take over obligations of the MEDIA Production Guarantee Fund and cover the losses incurred by the banks. Given the substantial size of the Fonds de Garantie Principal, IFCIC can therefore offer a higher leverage effect. Indeed, solidarity bringing down the level of risk, the multiplier ratio is much higher than for a stand-alone fund of an equal amount. The downside to this solidarity principle is that, once an amount has been committed to guarantee a loan, it is integrated to the Fonds de Garantie Principal and not returned to the EU budget at the end of the period. IFCIC receives a management fee from the European Commission. Furthermore the banks will pay a guarantee fee of 1% p.a. for the guaranteed amount.

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161 This is considerably higher than the estimated average of loans to the cultural and creative sector mentioned under point 2.4.2 as film production normally involves higher costs than most other cultural and creative sectors.

162 Centre National de la Cinématographie

163 IFCIC has now extended its services to all cultural and creative sectors.

Audiovisual SGR co-invests € 2 million in the fund over the period, bringing the total cumulated amount of the part of the fund they manage to a total of € 6 million at the end of the period. The relatively modest size of the fund means that the leverage effect is lower than what IFCIC can offer. However, all the proceeds remaining in the fund at the end of the period will be reimbursed to the Commission. Audiovisual SGR receives Study Commissions on each applications received: one variable of 0.75% of the guarantee amount and one fixed of 500-1000 €, the latter regardless of whether the operation is finally approved. Further to that an annual fee of 1.5% of the assumed risk is charged for providing the guarantee. Participating Members pay an initial membership fee which is reimbursed when the guarantee has expired.

Figure 4. How the MPGF works

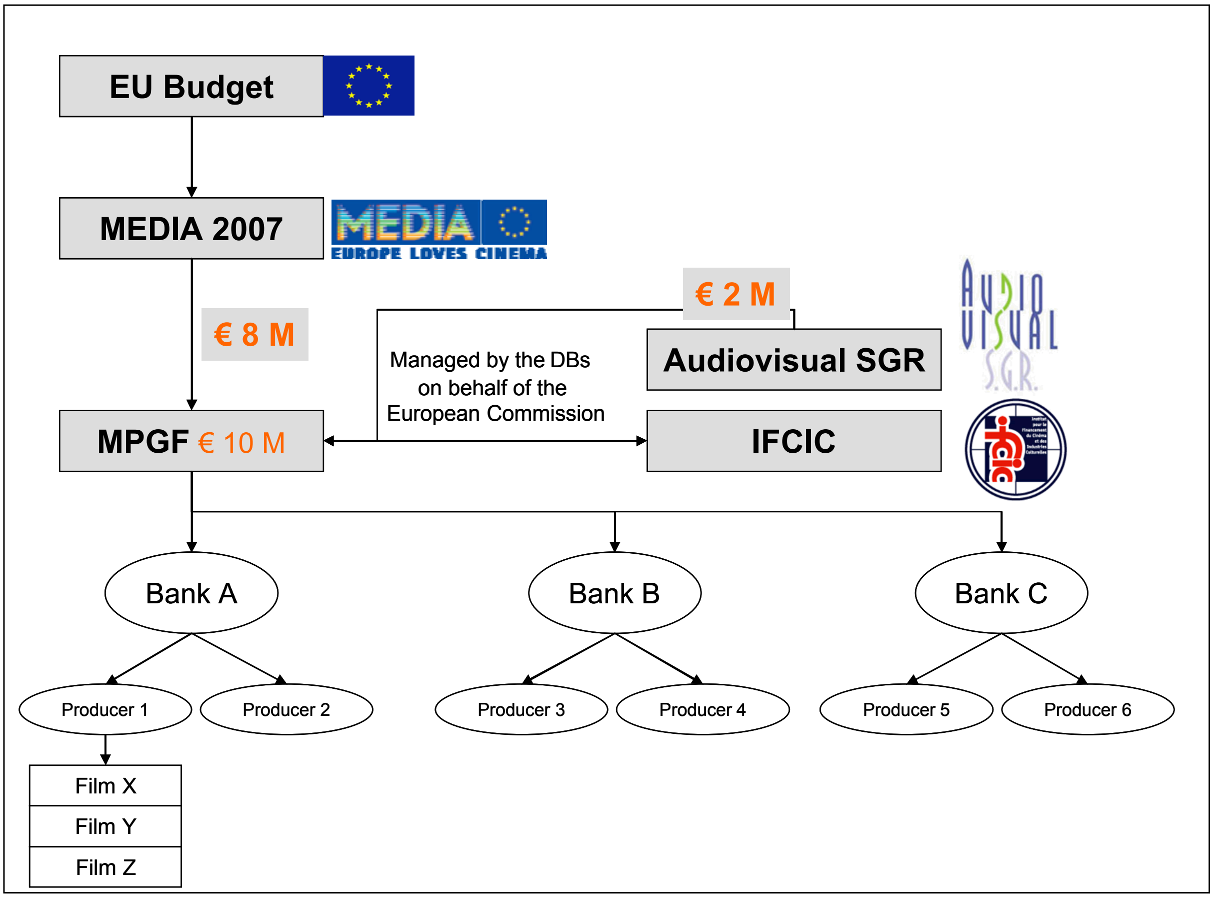

Table 2. Comparison of IFCIC and Audiovisual SGR

	IFCIC	Audiovisual SGR
Co-investment	No	€ 2 million
Total amount allocated	€ 4 million	€ 4 million
Annual amount allocated	€ 1 million	€ 1,5 million
Total amount of the fund	€ 4 million	€ 6 million
Multiplier ratio	10	4 to 6
Share of the risk guaranteed	55%	50%
Estimated total amount of loans covered	€ 80-90 million	€ 50-60 million

2.5.2. *Other Actions in favour of access to finance*

The European Competiveness and Innovation Framework Programme (CIP) targets small and medium-sized enterprises (SMEs), supports innovation activities, provides better access to finance and delivers business support services in the regions. SMEs in the cultural and creative sector are eligible for the SME Guarantee Facility (SMEG), offering transversal support to all SMEs but which has mostly consisted of increasing the volume of loans through traditional bank credit lines. Due to the CIP´s transversal approach, the SMEG has a very limited impact on extending activities in sectors in which intermediaries (financial institutions) have little activity (such as in the cultural and creative sector) also because the model is not accompanied by robust capacity building which can help banks to better understand the underlying risks which they frequently perceive to be higher than it actually is. Therefore very few SMEs in the cultural and creative sector have been able to benefit from the SMEG[164].

The Creative Industry Alliance

DG ENTR has recently launched a new action which is called the European creative industries Alliance (ECIA). The beneficiaries are regional, national and European actors supporting SMEs in all sectors of industry by user-centred innovation processes and the objectives are to:

– establish a policy dialogue to design better policies and make more strategic use of current and planned initiatives in support of creative industries SMEs at local, regional, national and European level

– mobilise more and better support for the further development of SMEs in the creative industries

164 Statistics from the SMEG have shown that very few SMEs with intangible assets have received loans originating from the SMEG. An analysis of the data related to SMEs with NACE "92" demonstrates this.

– showcase the relevance and impact of services innovation (e.g. demand-driven and user-centred approaches)

– design and test better instruments to support innovation in creative industries SMEs and their interaction with other sectors

– strengthen the role of the creative industries as a catalyst for innovation and structural change throughout the economy

– inform SMEs about relevant existing and new policies and measures.

It is expected to generate the following results:

– establish a cooperation platform to elaborate better policies for the creative industries in the specific fields identified above

– establish a guidance tool for, notably, SMEs on existing and new innovation support for these industries

– launch pilot actions to test better innovation support mechanisms for these industries

However, this initiative, only launched very recently, does not include direct funding such as grants or support through a financial instrument. It will be a useful complementary action to maintain a continuous dialogue with the sector but is not expected to directly facilitate access to finance to the CCS.

The Risk Sharing Financial Facility (RSFF)

The Risk-Sharing Finance Facility is part of the financial collaboration between the European Commission and the European Investment Bank (EIB). The RSFF aims to improve access to the EIB debt finance for participants of European Research & Development projects. Introduced in 2007, it was the first "European scale programme" to use debt-based finance to complement the more traditional financing means for Research, Development and Innovation (RDI) such as grants as under the European Commission's Framework Programmes (FP), or equity as provided by the European Investment Fund (EIF). However, SMEs in the CCS have very limited access to the RSFF, designed to finance larger scale innovative projects.

Other SME financing schemes at the EU and national level which are open to CCS can be found for example in Germany and in the UK**.** Further descriptions of these schemes can be found in section 2.7.1 describing complementarities with national actions and EU initiatives.

2.5.3. Likely development of the problem all things being equal

The baseline case for this impact assessment assumes continuation of the current MEDIA Production Guarantee Fund roughly in its current form. This section examines the likely development of the problem over the period 2011-2020. It is difficult to predict developments; however on the basis of the previous evaluations it can be assumed that the positive benefits would continue.

The current CIP will most likely continue in 2014 but given its relative ineffectiveness with regards to the CCS of CIP it is not necessary to include it in the analysis of the baseline. The

ECIA is also excluded from the baseline due to the fact that it was only recently launched and because it doesn't provide direct financial support either in the forms of grants or through a financial instrument.

Problem – Limited scope and resources for MPGF

The MEDIA Production Guarantee Fund currently supports film producers to cash-flow the production phase of feature films, animations and documentaries and TV productions. Its limited resources prevent it from covering other elements of the film industry value chain or other sub-sectors of the CCS. Should the MEDIA Production Guarantee Fund be continued with the same scope and size and in the absence of innovative initiatives to encourage financial institutions to further engage with the sector and provide financial instruments such as debt funding, the problem of access to finance will continue to persist for many cultural and creative SMEs. It would most probably become more acute in the coming years given the new market context and challenges faced by cultural and creative SMEs, as exposed above[165].

Section 2.4.2 demonstrated that it is more difficult for those SMEs operating in the cultural and creative industries to access banks loans and it has been estimated that the financial gap for cultural and creative SMEs is between €2.8 billion to €4.8 billion. It represents the amount of debt funding missing in the cultural and creative sectors due to their specificities. In spite of its high leverage effect (see table above), the current budget allocated to the MPGF is largely insufficient to have a real impact on the problem. Economic and social impacts of the baseline are further discussed in section 5.2.

2.6. EU – Right to act

EU action towards the audiovisual sector is based on articles 167 and 173 of the Treaty on the Functioning of the European Union (TFEU) on respectively culture, vocational training and industrial competitiveness.

> Additionally, the EU Charter for Fundamental Rights (Article 22) states that the Union shall respect cultural and linguistic diversity. Finally, the Union's mandate is recognised in international law, in the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire*.

2.7. Subsidiarity and EU added value/ necessity test of the new EU initiative

2.7.1. Complementarities with national actions and EU initiatives

The financial instrument will strive to **complement** those initiatives undertaken **at national level**, as national funding schemes tend to focus on national production activities or the promotion of purely national interests. One of the weaknesses of the national schemes with regards to access to financing is, with the exception of France, Germany, Spain and maybe the UK, the lack of institutions specialised in the cultural and creative sectors. Therefore, it can be asserted that the risk of purely national projects being able to benefit from the EU financial instrument (as option 3 in Section 4 proposes) versus them using their own national schemes

165 For details on expected development see also IAs on Media and Culture strands

is rather limited, even though it is envisaged that purely national projects will be eligible for the EU guarantee[166].

The study on European Film Banking (2009) carried out by the Commission confirms this, as it revealed that there are indeed very few guarantee funds available in Europe which are specially focused on the cultural and creative sectors. Many of them are quite small and limited to particular regions but examples of highly specialised funds in the cultural and creative sectors with a substantial size are the two operators of the Commission's MEDIA Production Guarantee Fund (see below). Both of them are managing their own separate funds with their own national contributions which are entirely focused on their domestic markets.

IFCIC was founded in 1983 at the initiative of the Ministry of Culture; its unique purpose is to contribute to the development of the culture sector in France by making it easier for sector companies to obtain bank financing. IFCIC is a neutral and independent institution: neutral, because its capital is open to most lending banks and independent because it is financially responsible for all of its decisions.

Audiovisual SGR was founded on 23 December 2005 by the Ministry of Culture through the Institute of Cinematography and Audiovisual Arts (ICAA) and the Audiovisual Producers' Rights Management Association (EGEDA) with the aim of supporting the audiovisual industry. The Audiovisual SGR is a "mutual guarantee society" (MSG) that underwrites low-interest bank loans for film and TV companies. Based in Madrid, the company has established pre-negotiated loan agreements with a range of Spanish banks

As previously discussed there are clear complementarities between these two institutions and the current MPGF as they are building on their experience from their national guarantee funds in managing the MPGF at European level. This is providing cultural and creative SMEs from other Member States than France and Spain, easier access to bank credits.

Other examples of specialised financial institutions which are focusing solely on the CCS can be found in the Netherlands through a culture loans offered by Kunstenaars&Co and Triodos Bank, in Germany where the KFW Bank has recently setup a special unit focusing on film financing and in the UK, Coutts & Company has a specialised media unit focusing on film, TV, music, videogames etc.

Concerning other European guarantee models, some are open to all SMEs, such as the German (**Landesbürgschaften**[167]) and UK (**The Enterprise Finance Guarantee**[168]) guarantee funds which offer guarantees to banks willing to lend to SMEs. Within these guarantee funds, there is however only limited expertise with regards to those sectors which

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166 The justification for offering the EU guarantee to purely national projects is to be found in the next section: EU Added Value

167 German Public Guarantee Model: State guarantees (Landesbürgschaften) are provided by State guarantee banks. Each federal State in Germany has a public guarantee bank with the purpose of assuming default guarantees for SMEs, so as to shore up the disadvantages such companies face on the capital market compared to large companies. The guarantees are provided by State guarantee banks that make credits available to healthy companies and freelance professionals, which do not have sufficient - if any - bank acceptable collateral. Any SME based in the federal State can apply for such a guarantee.

168 The Enterprise Finance Guarantee (EFG) in the UK facilitates additional bank lending to viable SMEs which lack the security to secure a normal commercial loan. The UK Government provides the lender with a guarantee for which the borrower pays a premium. Accredited lenders administer EFG and make all decisions on lending.

banks usually categorize as "high risk". Subsequently these types of guarantee models are more suitable for enabling banks to increase their credit exposure to traditional SME sectors rather than encouraging them to grant credits to new sectors such as the CCS. Therefore national SME guarantee schemes demonstrate limited engagement with SMEs in the CCS as is the case with the CIP's SMEG which has previously been mentioned. This has been confirmed by various stakeholders in the CCS which have had difficulties obtaining guarantees for their loan applications (mostly due to the lack of willingness from the banks point of view).

At EU level, some actions could be considered complementary, such as:

European structural funds are administrated by the Member States and may regionally or nationally support cultural and creative sectors like, for example, modernisation and digitisation of cinemas and film studios or funding of incubation facilities for CCS. They might complement the new financial instrument as it is envisaged that the new Financial Regulation will allow for the "topping up" of European financial instruments with structural funds.

The European Competiveness and Innovation Framework Programme (CIP) and the Risk Sharing Financial Facility mentioned in the baseline, are complementary to MEDIA in terms of the form of intervention (financial instrument vs. direct grants). However, as previously stated, they have a very limited impact on the CCS as very few SMEs in the cultural and creative sector have been able to benefit from the programme.

2.7.2. EU Added value

Economies of scale

Financial instruments at EU level can achieve economies of scale and/or minimize the risk of failure in areas where it would be difficult for individual Member States, in particular smaller Member States, to achieve the required critical mass. The **cost-benefit ratio** of a financial instrument is likely to be higher for an EU-level instrument than it would be for a series of financial instruments at national, regional or local level, due to higher volumes under management, higher leverage ratios or simply lower management fees charged by the financial intermediaries.

Multiplier effect at EU level

The use of financial instruments will allow the Commission to **multiply**[169] the effect of the EU funds and to achieve a much larger impact for the final recipients than if it provided the financial support directly (through direct grants for example). Indeed, it attracts extra funding from investors to the sector thanks to the risk sharing with the EU. This can already be observed from the current MPGF, where to this date, the EU contribution of €2 million has already generated loans to film producers worth €18 million.

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[169] For the purpose of financial instruments, leverage corresponds to the following formula:

$$\frac{\text{Finance to final recipients}}{\text{EU contribution}}$$

This formula shows the leverage (or multiplier effect) an EU contribution can have in terms of finance provided to final recipients.

Cross border effect

The previous section (2.7.1) mentions that under the financial instrument for the cultural and creative sectors, it is envisaged that **all CCS SMEs will be eligible** irrespective of whether they have cross-border operations or aspirations. EU funding may be used to support purely national SMES and projects as a financial instrument for cultural and creative SMEs offers **greater EU added value** and visibility to the cultural and creative sectors by disseminating European-wide sector-specific expertise among financial institutions, which is currently limited number to a small number of EU Member States, financial institutions, consultants or experts..

This trend has in fact begun with the current **MEDIA Production Guarantee Fund** where for example a Dutch producer with a national project gets a loan from a Dutch bank which he most likely wouldn't have received without the EU guarantee accompanied by the risk assessment by Audiovisual SGR, a specialised guarantee institution from Spain backed by EU funds.

Furthermore, the problem definition mentions that the financial needs of the CCS have a **limited critical mass,** constituting one of the obstacles for financial institutions to get involved in the CCS. Limiting the financial instrument only to cross-border CCS would possibly decrease the interest of financial institutions to engage in the CCS.

Additionally, EU added value will be ensured through the **pan-European nature** of many cultural and creative projects. Most SMEs in the audiovisual sector for example are engaged in transnational co-operations for example through co-productions. Concerning other subsectors such as music, publishing or video games, the digital shift has created a global market through online platforms, which will accelerate the trend towards transnational collaboration in these sub-sectors as well. This point is also discussed in the MEDIA and Culture Impact Assessments.

Skills development at European level

The financial instrument would build upon the experience of pan-European **MEDIA Programme** which has supported transnational co-production of audiovisual works and networking activities such as markets and training courses for the past 20 years. MEDIA has actually already started to work towards the development of financial and management skills for companies of the European audiovisual industry in order to respond to the need for such capacity building identified in the latest evaluations. These courses will continue to be financed by the Creative Europe programme after 2014, and extended to other CCS. This will be complementary to the capacity-building pillar of the CCS financial instrument specifically targeting skill development within financial institutions as explained below.

Non-financial leverage on national markets

Additionally, financial instruments implemented at EU level **can have important influence in the targeted markets**. Non-financial leverage is obtained by ensuring that financial instruments are designed to pursue specific policy objectives and that the interests of participating financial institutions are aligned with these objectives. The dissemination of European-wide sector-specific expertise is a clear example of how the non-financial leverage of the financial instrument for the CCS would work and the consistent application and promotion of best standards, accompanying the EU financial instrument may foster a qualitative development of a market segment and increase intermediary sophistication over time, while contributing to less fragmented EU cultural and creative markets.

3. OBJECTIVES

The general objective of the cultural and creative financial instrument is in line with those of the Creative Europe Framework Programme which is to: **to foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sector, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.**

The specific objective of the financial instrument strand is **to strengthen the financial capacity of the cultural and creative sector**[170].

Priorities are:

- To provide expertise/capacity building to the financial institutions
- To provide guarantees to banks dealing with cultural and creative SMEs thereby enabling them easier access to bank credits
- To increase the number of financial institution which are willing to work with cultural and creative SMEs
- To maximise the European geographical diversification of financial institutions willing to work with cultural and creative SMEs.

4. POLICY OPTIONS

In the context of its reflection on new innovative financial instruments and building on the experience of the previously mentioned MEDIA Production Guarantee Fund, the Commission explored several ways to set up a financial instrument for SMEs operating in the cultural and creative sectors.

4.1. Discarded options

Analysis of options for a financial instrument for SMEs in the cultural and creative sectors included investigating the feasibility of different types of mechanisms, as the most appropriate type of funding for SMEs depends on a number of factors such as the type of SME, the availability of debt or equity finance, the cost of capital or the willingness of the stakeholders (SMEs, financial institutions, investors, etc). This exercise involved various stakeholders, experts, professionals and financial institutions as can be evidenced by the list of consultations in Section 1 and Annex 1.

[170] This reflects the specific objectives set for other strands of the Creative Europe Framework Programme, particularly (i) support the capacity of the European cultural and creative sectors to operate transnationally including by strengthening the relations and networks between operators; and (ii) strengthening the financial capacity of the cultural and creative sectors.

On the basis of the consultations and analysis provided above, a closer look was taken into some other options which were discarded:

- **Creating a standalone financial instrument within EAC:** One of the options considered was to set up a standalone guarantee instrument for the cultural and creative sectors. Such an instrument would be in full conformity with the rules set under the planned **EU Debt Platform.** DG EAC would mandate the European Investment Fund (EIF) for the management of the instrument, but would itself remain responsible for its coordination, monitoring and control. However, following the MFF decision and given the limited amount that can be attributed to a specific CCS financial instrument, this option was ruled out since it does not fulfil the minimum size requirements of future Commission Financial instruments (as mentioned in 1.3.1). Additionally, this option could be administratively burdensome and risky due to limited infrastructure and expertise within DG EAC to deal with financial instruments.

- **Creating an equity financial instrument:** although it would undoubtedly respond to a certain need among the CCS, the setting up of an equity instrument rather than or in addition to a debt instrument has been discarded given serious issues in terms of cost-effectiveness, market readiness and feasibility.

Consultations with the EIF and other experts revealed that it would be difficult to implement such a financial instrument for various reasons:

   – The cost-effectiveness of equity funds makes them less attractive for public support as they normally do not offer the same leverage effect as debt instruments. This results in a lower critical mass and therefore a more limited impact.

   – Venture capital funds and other forms of private investment have different objectives than traditional financial institutions, as they are looking for fast-growing investments and high returns on investment through a successful exit strategy. Although some companies operating in the CCS could fulfill these requirements, the specific nature of the CCS makes it difficult to attract venture capitalists. Firstly, cultural and creative companies often need a longer time to become profitable and rarely offer appropriate short term exit strategies to VC funds. Secondly, their value is mainly project-based, while equity investors are looking for corporate value.

   – There is a lack of understanding among investors on how to evaluate companies whose value is mainly based on intangible assets such as IP rights and other forms of traditional creative collateral.

   – Finally, consultations with potential partners such as venture capital funds including the European Venture Capital Association (EVCA), revealed that it would be difficult to attract private investments to co-investment with the European Commission in such an instrument, mainly for the reasons exposed above but also due to their standard practice of not investing for less than €5 million in each venture which is clearly too large of an investment for most SMEs operating in the CCS.

This option was therefore discarded from the beginning.

Microfinance and Microenterprises: Micro-enterprises operating in the cultural and creative sectors often need microfinance in their early development phase. The EIF´s experience with microfinance shows that dedicated instruments which are run separately from other financial instruments are only appropriate in sectors where lower profitability is expected, such as the social sector. The EIF has however indicated that financial intermediaries wishing to offer micro-financing to their CCS client base could apply for a CCS guarantee on their portfolio.

It is therefore more appropriate and effective to focus all DG EAC financial resources on a debt instrument and an investment readiness[171] programme for private investors and CCS professionals that would be organized by the EIF and/or the Commission itself.

The current impact assessment considers 3 options:

4.2. Option 1 – No change (the baseline)

Option 1 assumes continuation of a stand-alone MEDIA Production Guarantee Fund was launched in 2010 with € 8 million for duration of 4 years. Its objective is to facilitate access to private sources of finance for producers via a guarantee mechanism that encourages banks to grant them credits by sharing the risk incurred. For more details see also section 2.5.

4.3. Option 2 – No action (the "no financial instrument" option)

This option foresees the discontinuation of the current MEDIA Production Guarantee Fund and the absence of any form of financial instrument in the MEDIA Programme/Creative Europe Programme.

4.4. Option 3 – Setting up a Cultural and Creative Sector Guarantee Facility within the framework of a larger financial instrument

This option entails the funding by the EU budget of a financial instrument for the cultural and creative sectors which would be part of a larger cross-policy financial instrument.

The new instrument would provide credit risk protection to financial intermediaries building portfolios of loans in the CCS, along with providing them with the necessary capacity/expertise to correctly analyse the relevant risks.

Based on the current MFF decision for the Creative Europe Programme, DG EAC is proposing a budget of € 180 million[172] for the financial instrument which would be delegated to the EIF for the seven year duration of the instrument to cover losses on the programme, to

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171 Investment readiness is the ability to understand investors' concerns, to understand the differences between the types of financiers and to fulfil specific financial requirements of banks and investors.

172 A political commitment has been made by the EC President to at least maintain the respective sizes of both MEDIA and Culture for the next MFF. Taking note of the MFF allocation of €1,6 billion it is likely that the CCS GF will be allocated around €180-200 million. This amount is subject to change depending on the final Creative Europe budget. It is furthermore possible that the proceedings from the current MPGF could be added to the new CCS GF as Article 18.2 of the [FR], states that "*revenues and repayments generated by the guarantees shall be assigned to the financial instrument. For financial instruments already set up in the previous multiannual financial framework, revenues and repayments generated by operations started in the previous period shall be assigned to the financial instrument in the current period.*"

provide capacity building to organise networking/knowledge sharing activities and to cover fees to the EIF for the management of the facility.

4.4.1. Sub-options

Under option 3, Setting up a Cultural and Creative Sector Guarantee Facility within the framework of a larger financial instrument, there are essentially two sub-options which need to be analysed. They are Sub-option 3a – a capped guarantee facility and Sub-option 3b – an uncapped guarantee facility. This section describes both sub-options both with regards to the points which they share and the ones that are different. Section 5 provides an analysis on the sub-options and finally Section 6 compares them.

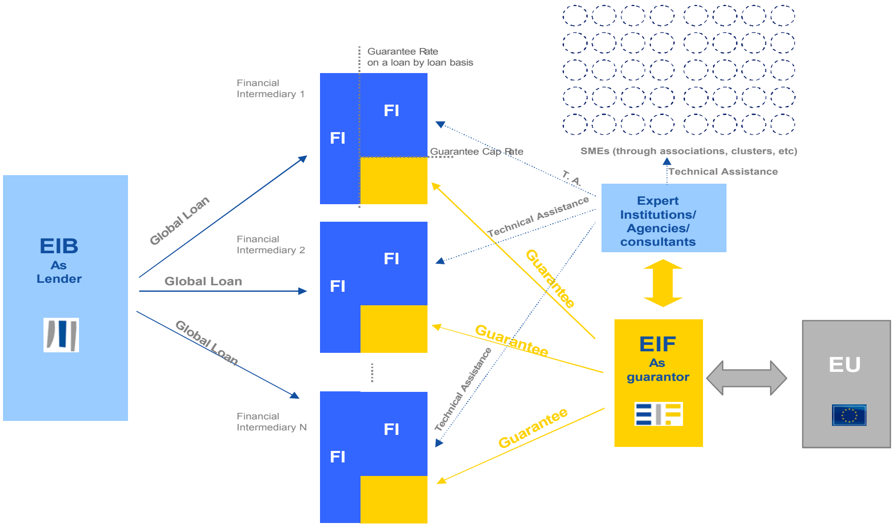
Sub-option 3a – Capped guarantee facility

The EIF has suggested that the new guarantee facility would offer a **first loss piece portfolio guarantee**, meaning that the EIF would deliver financial guarantees to financial intermediaries in order to partially cover the risk of new loans to final beneficiaries (CCS SMEs) as defined below. According to the proposal, each financial intermediary would receive a partial guarantee to be applied on each underlying loan (i.e. 70% Guarantee Rate) up to a Cap Rate of 25% on each portfolio. This is an example of a capped guarantee model and is further illustrated in figure 1.

The guarantee would cover the risk associated with a portfolio of loans to individual CCS SMEs up to a Cap Rate of 25% on each portfolio. Each financial intermediary would receive a partial guarantee to be applied on each underlying loan (i.e. 70% Guarantee Rate). The 25% cap limits the maximum loss that the EIF/EC would be ready to cover and is the sum of the estimated expected and part of the unexpected loss. The expected loss is calculated on the basis of the existing default rate in the sector (eg. 10% in the CCS), and the unexpected loss is the maximum loss that could be incurred under more extreme scenarios. Such a model allows the EIF to offer free guarantees to the financial intermediaries. An example of capped guarantee facility is the SMEG in the context of the CIP.

An example of a capped guarantee model is further illustrated in the figure below.

Figure 5.



Sub-option 3b – Uncapped guarantee facility

The uncapped guarantee model would also deliver financial guarantees to financial intermediaries in order to cover the risk of new loans to final beneficiaries (CCS SMEs) with each financial intermediary receiving a partial guarantee to be applied on each underlying loan (for example 50% in the case of RSFF for SMEs[173]). This model offers complete portfolio risk sharing with financial intermediaries, irrespective of losses, while the capped guarantee model covers only a part of the portfolio of loans (ie. expected + part of unexpected losses). A current example of an uncapped guarantee model is the RSFF for SMEs (Risk Sharing Instrument) for Research and Innovation projects, managed by the EIF.

Table 3. Main differences between the capped and uncapped guarantee models

	Uncapped guarantee model	**Capped guarantee model**
Example	RSI – RSFF for SMEs	SME Guarantee Facility, possibly the new CIP guarantee facility
EIF involvement	Takes balance sheet risk in addition to managing the instrument	Manages the instrument but does not take a stake in the risk sharing
Guarantee fees	The EIF charges a fee (eg. 1-3%) to financial intermediaries to compensate for sharing the risk	Could be offered for free (0% fee for financial intermediaries)
Guarantee cap	Uncapped – complete risk sharing with financial	Capped, traditionally 25-30%. Covers the expected

[173] The guarantee rate is typically lower than in the capped model.

	intermediaries, irrespective of losses.	and unexpected losses.
Guarantee rate	Typically lower (around 50% for example for RSFF for SMEs)	Typically higher
Leverage of EC contribution	Typically lower	Typically higher
EIB involvement	Takes residual risk (the senior risk). Charges premium fees (1-3%) to cover admin costs, risk, capital costs.	Would offer a standard EIB Global Loan to financial intermediaries No residual risk
European Commission	Takes the first loss risk (sub-ordinated) up to a certain cap which is agreed upon between the EC and the EIB/EIF. Does not charge premium fees but asks for additions such as passing on benefits to final beneficiary or higher volumes	Takes the first loss risk (sub-ordinated) up to a certain cap Adds conditions to the guarantee which the financial intermediaries must comply with, such as passing on the benefits to the final beneficiaries, taking additional risks (such as lending to new types of businesses) or creating higher volumes, capacity/expertise training in CCS is mandatory
Target financial intermediaries	Commercial banks including some specialist banks in the CCS	Specialist banks in the CCS but possibly also some general financial intermediaries which will be content with the capacity/expertise training accompanying the guarantee
Product for financial intermediaries	Virtual portfolio including various types of loans to different sectors (ex. ICT, R&I and CCS) Capital relief is possible for banks	Portfolios ring-fenced in each bank comprised of sector specific loans (ex. CCS) Potential regulatory capital relief depending on jurisdiction and on the type of institution
Benefit for final beneficiaries	Could possibly attract new financial institutions to the	Those financial intermediaries who have

	CCS but some might be put off by the fee (such as those banks which have expertise in the CCS).	experience of working with the CCS would most probably like the idea of a capped but free guarantee to cover their expected losses. The capped guarantee might however not be sufficient in itself to attract new banks to the market but this will also depend on the quality and implementation of the capacity/expertise training accompanying the guarantee.

4.5. Eligibility criteria applicable to both sub-options

Financial intermediaries eligible for the CCS GF will be those financial institutions active in SME lending having entered into a guarantee agreement with EIF, under which they commit to promote CCS loans to the final beneficiaries. The financial intermediaries will also commit to keep a minimum of **20% economic exposure** on each loan.

The financial intermediaries benefitting from the CCS GF will be selected in conformity with best market practices. The Commission and the EIF will encourage financial intermediaries from all countries covered by the Creative Europe Programme to apply, while making special provisions to ensure a wide geographical coverage.

Eligible final beneficiaries will be SMEs (or possibly organisations which comply with the eligibility criteria described below) based in a country covered by the Creative Europe Programme, with an activity in one of the CCS sectors as defined by the CCS segments outlined in footnote number 1 on page 3 which covers a wide range of diverse activities. Each industry in CCS counts on its own value chain, with different steps involved (e.g. Development, Production, Promotion, Distribution, Exhibition in the case of the film industry) and therefore conditioning the activities of the CCS SMEs participating. Besides, projects related to mobility and circulation of cultural/creative artworks, digitisation and cultural diversity are also within the scope of the CCS Guarantee Facility[174].

4.6. Loan characteristics[175] applicable to both sub-options

– Newly originated loans to Final Beneficiaries.

– Loan amount: maximum of € 2.5 million (subject to diversification of the portfolio at Financial Intermediary level).

– Purpose of the loan: investment in tangible or intangible assets, and/or working capital;

– Maturity: from 12 months to 84 months.

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174 More details about the eligibility criteria can be found in Annex 3

175 This parameters need to be further analysed within the Commission Expert Group on Access to finance for the CCS.

– Private collateral cannot be requested.

– Completion bonds cannot be requested[176]

4.7. Duration of guarantees applicable to both sub-options

Individual guarantees may have a maturity of up to 10 years

4.8. Loss cover Mechanism applicable to both sub-options

The default will be defined on the basis of Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions (recast). EIF will pay the defaulted amount to the Financial Intermediary within 60 days of default notice being received. Default notice will be sent quarterly at the end of each calendar quarters. Recoveries once received would be shared between the financial intermediary and EU/EIF contribution according to the guarantee Rate (70% for the EU/EIF and 30% for the financial intermediary, on a pari passu[177] basis).

4.9. Geographical coverage applicable to both sub-options

The objective is to use the expertise currently available only in a few financial intermediaries (in France, Spain, Germany, UK) to widespread across the EU. This will be achieved thanks to the capacity building programme, and through specific provisions ensuring that financial intermediaries commit themselves to offer all CCS SMEs non-discriminatory and equal treatment with regards to their loan applications. It can also be envisaged to introduce positive discrimination measures in order to favour countries where access to finance is most difficult for the CCS. For example, those financial intermediaries **willing to operate trans-nationally or on a regional level** (for example: Nordic countries, Benelux, South-East Europe, Eastern Europe etc.) and based outside of the five big countries (Germany, France, UK, Spain and Italy) may benefit from easier access to the guarantee mechanism. The experience from the current MPGF will be valuable in this exercise.

4.10. Capacity building (CB) applicable to both sub-options

CB will be a basic pillar of the CCS Guarantee Facility. During previous meetings and consultations which are mentioned in Section 1 and Annex 1, CCS stakeholders (including financial intermediaries) agreed on the fact that the specific nature of CCS SMEs requires different and specific approaches and skills than in other sectors, where credit risk can be assessed in more standardized ways. Furthermore, with the exception of a few of them, European financial intermediaries do not currently have the in-house necessary expertise to evaluate the risk associated with this sector and its specific characteristics. Expertise needs to be shared among the financial intermediaries on CCS specificities, thereby encouraging them to increase their activities in the sector. The EIF is already offering such programmes in parallel to some of its financial instruments. The capacity building providers would be selected by the EIF on behalf of the CCSGF and under the supervision of DG EAC through **a public and open procedure** (Call for Expressions of Interest). The selection process will follow current EIF Procurement practices, which fully comply with EU Procurement

[176] This point has yet to be decided on

[177] Pari passu means that the EU/EIF and the financial intermediary have equal rights of payment, or equal seniority. This means that in case of a default of € 100,000 out of a € 500,000 loan for example, the Fund would reimburse € 70,000, while the bank would support a € 30,000 loss.

requirements. Several Calls for Expressions of Interest (or several lots) may be published to cover the different **geographical markets** and **cultural and creative sub-sectors** covered by CCSGF.

CB providers could typically be agencies, guarantee institutions, banks, experts or consultants who demonstrate appropriate expertise and meet certain basic eligibility and selection criteria. Applications received in response to the Call for Expressions will then be evaluated by a selection panel on the basis of award criteria[178]. The criteria will be published in the Call for an Expressions of Interest.

The selection of CB providers will take place during the roll out phase of CCSGF. However, additional windows for the selection of CB Providers can be opened subsequently as new markets are embraced by CCSGF and/or on a periodic basis. Specific contracts with CB providers will be signed for delivering CB in the context of a specific market and / or to an individual financial intermediary.

5. IMPACT OF THE OPTIONS

5.1. Framework for analysing impacts[179]

To assess the impacts of the proposed options relative to the baseline, it is necessary to assume that other complementary or related policy instruments, such as national support, other Commission programmes, and legislative measures would continue to apply in roughly their current form.

The focus of the Cultural and Creative Sector Guarantee Facility and the other options is on achieving economic and social outcomes, and hence the largest impacts are likely to be in these categories. Environmental impacts are likely to be only marginal and they are therefore not analysed.

The options have been assessed in view of their potential effectiveness in achieving the desired objectives. In the table below, economic and social impacts identified flow mainly from the intended effects of the options on the competitiveness of the sector and to encourage financial institutions to provide financial services to the cultural and creative SMEs.

There are certain risks and uncertainties which have to be taken into consideration in this analysis which is mostly due to the diverse nature of the different sub-sectors of the cultural and creative sectors. Furthermore, there are limited statistics available on the current amount of bank loans being made to the European cultural and creative sectors which complicates this exercise with regards to estimating the optimum size of a financial instrument for the CCS. Therefore the following analysis of impacts adopts a rather qualitative approach which tries to build on previous Commission experience in this field.

Table 4. Main areas of economic and social impacts

Areas of economic impact	Areas of social impact

178 Such as experience in CCS financing (direct and/or indirect), expertise, geographical reach, capacity of delivery, knowledge of the market, etc

179 See Commission Guidelines on Financial Instruments in Annex 2

Areas of economic impact	Areas of social impact
Functioning of the internal market and competition (trade level) Revenues and profits of the cultural and creative sectors New business opportunities for financial institutions Competitiveness of cultural and creative SMEs Cost of business for cultural and creative SMEs s Structuring effect, less reliance on public subsidy	Employment in the cultural and creative sectors Job quality in the cultural and creative sectors Capacity building

5.2. Analysis of impacts

- Option 1 - The baseline

Economic impacts

Should the MPGF be continued, European film producers will continue to have access to the MPGF which will have a positive impact on this specific sector but due to its relatively small size, it is probable that the supply will not match demand.

A continued MPGF with the same scope and size and in the absence of other innovative initiatives to encourage financial institutions to further engage with the cultural and creative sector, the problem of access to finance will continue to be a major issue for the economic growth of the cultural and creative sectors. It would most probably become more acute in the coming years given the new market context and challenges faced by cultural and creative SMEs, as exposed earlier in this Impact Assessment.

Previously we have estimated that there is a considerable financial gap for SMEs in the cultural and creative sectors and it is therefore certain that those SMEs which are operating in other cultural and creative sectors other than film production will continue to be faced with access to finance barriers. This will certainly hamper their competitiveness and growth as they will continue to be reliant on public subsidy. However, the MPGF will continue to have a structuring effect on the film production society, decreasing dependence on state subsidies and creating linkages between financial institutions and producers.

Social impacts

Film producers will continue to have access, although limited, to the MPGF which will preserve some quality jobs in the film production sector. However the cultural and creative sector will not benefit from any specific capacity building action, although some expertise is undoubtedly shared throughout the financial sector due to the guarantees being issued.

- Option 2 - No action

Economic impacts

Taking note of the difficulties experienced by European financial institutions caused by the economic and financial crisis and observing the severe lack of access to finance for SMEs in the cultural and creative sectors (as mentioned previously in Section 2) it is quite likely that this problem will persist if no action is taken. This would affect the competitiveness of the cultural and creative sector as it would continue to be reliant on public subsidies and furthermore place additional burden on already cash-strapped national budgets. It would have an overall negative impact on the scale of the cultural and creative sectors in the European Union.

Social impacts

As Member States will most likely continue to pursue their cultural objectives but banks will not engage further in the CCS leading to fewer CCS SMEs being able to thrive which could affect the level and quality of employment in the production companies currently benefiting from the MPGF. Furthermore this could have a slightly negative impact on the European cultural and creative supply. The supply of capacity building programmes by the EU for financial institutions or professionals in the CCS would remain too marginal to have any impact.

- Option 3 – Setting up a Cultural and Creative Sector Guarantee Facility

Economic impacts

Common to both sub-options

(i) Macro-economic impacts

The use of the Cultural and Creative Sector Guarantee Facility which would be bigger in size and scope of the coverage, would improve access to finance for cultural and creative sector SMEs to a larger degree than the current MEDIA Production Guarantee Fund, leading to the strengthening of their financial capacity and of the commercial potential of works. A significant increase of the size of the financial instrument would also have a stronger structuring effect, increasing the capacity of the sectors to attract private sources of finance and thereby lessen SME dependence on public subsidies.

Additionally, it is possible that some Member States or regions will follow the example of the Cultural and Creative Sector Guarantee Facility by contributing their own resources (which most likely would have been used for purely national projects in the form of grants). This would have a positive economic impact on the use of public resources at the national and regional level.

The high leverage on public funding via a financial instrument will have a structuring effect on the CCS as there will be a progressive transition from direct support in the form of subsidies to financial instruments, at least for some types of supports and beneficiaries, such as:

- Micro-loans for individual project development:
- Funding for independent game developers
- Loans to exhibitors for the digitisation of cinema theatres

– Working capital loans to distributors to cover distribution costs (print, marketing, advertising, dubbing and subtitling)

– Early stage funding for content aggregators and new distribution platforms (etc)

Despite the obvious advantages of the transition from grants to other forms of financing such as loans or equity, there will continue to be certain complementarities between public grants and financing. For instance, pilot projects will need to continue to be funded via grants as risks related to these actions are very high and the economic profit uncertain. The long-term impact of such early stage grants to innovative projects can however be high. For example the MEDIA Plus programme had support available for new online distribution platforms as part of its Pilot programme. Due to the success of this type of pilot scheme, a new action line was created for the Video-On-Demand, as the market had responded favourably to the EU initiative and today there are numerous European operators of VOD platforms. It is expected that some of these operators will be able to utilise the new CCS GF. This is an example of where grants are duly justified and how they can be complementary with a financial instrument (and loans).

(ii) Micro-economic impacts (sensitivity analysis)

Sub-option 3a. Capped guarantee model

The impact of this option on the financial gap identified in section 2.4 can be evaluated on the basis of the following assumptions with a leverage effect of 5.7[180]:

- Total contribution of the EU to the Fund 2014-2020: € 180.000.000
- EIF management fee and costs: 6%[181]
- Average individual loan: € 100.000[182]
- Default rate: 10%[183]

To simplify the calculations and reach a conservative estimation, we also ignore the revolving nature of the fund. Indeed, we do not consider the funds being freed up for new guarantees every time a loan is reimbursed without calling for the guarantee.

The total net contribution to the Facility would reach € 169.200.000 at the end of the period, allowing to cover a total of over 30,000 individual transactions for a total amount of credits of

180 The leverage is determined by the Guarantee Rate and the Cap Rate. The 5,7x leverage is calculated for a 70% Guarantee Rate and 25% Cap Rate (1 / (70%*25%)). An increase of the Guarantee Rate or the Cap Rate would reduce the leverage. It means that with €1 million, the facility can guarantee credits for a total amount of up to €5.7 million

181 Assumption based on previous costs related to EU financial instruments and includes costs related to the capacity building measures

182 See section 2.4.2

183 The two operators of the current MPGF, IFCIC and Audiovisual SGR have both had default ratios well below 5% in their domestic operations in recent years. Default estimates for the Cultural and Creative Sector Guarantee Facility are though likely to be higher than those of IFCIC and Audiovisual SGR due to their broader geographical and sector scope.

€ 964.440.000, **covering between 20 and 35% of the financial gap** estimated in section 2.4 and serving up to 8% of the number of European SMEs in the cultural and creative sectors. This quantitative impact would be in line with the guidelines laid down in DG ECFIN's Issues Paper on the EU Equity and Debt Platforms.

Note: These figures correspond to a conservative scenario, where the revolving nature of the fund is not considered. However, a pure statistical calculation based on the same cap rate, the guarantee rate and the default ratio would lead to a higher leverage ratio. In this more optimistic scenario, the instrument could potentially cover over 50% of the estimated financial gap (€2.8 bn).

Table 5. Capped guarantee model projection

Year	**Annual contribution to Fund**[184]	**Cumulated contribution**	**Cost = EIF Fee = 6%**	**Net Contribution to fund**	**Cumulated Contribution to fund**	**Cumulated Amount of credits covered**	**Balance of credits after default (guarantees called)**	**Nbr of transactions**
2014	10.000.000	10.000.000	600.000	9.400.000	9.400.000	53.580.000	48.222.000	482
2015	20.000.000	30.000.000	1.200.000	18.800.000	28.200.000	160.740.000	144.666.000	1.447
2016	30.000.000	60.000.000	1.800.000	28.200.000	56.400.000	321.480.000	289.332.000	2.893
2017	30.000.000	90.000.000	1.800.000	28.200.000	84.600.000	482.220.000	433.998.000	4.340
2018	40.000.000	130.000.000	2.400.000	37.600.000	122.200.000	696.540.000	626.886.000	6.269
2019	30.000.000	160.000.000	1.800.000	28.200.000	150.400.000	857.280.000	771.552.000	7.716
2020	20.000.000	180.000.000	1.200.000	18.800.000	169.200.000	**964.440.000**	867.996.000	8.680
Total	**180.000.000**		**10.800.000**	**169.200.000**				**31.827**

Sub-option 3b. Uncapped guarantee model

To get a comparison with an uncapped guarantee facility which would be sharing 50% of the risk on each individual loan, and 100% of the risk on each portfolio, the same following assumptions could be used

- Total contribution of the EU to the Fund 2014-2020: € 180.000.000
- EIF management fee and costs: 6%
- Average individual loan: € 100.000
- Default rate: 10%
- Revolving nature of the fund ignored

184 Given the important back loading of the Creative Europe budget in the current MFF, the annual contributions to the Facility will be low in the first years.

However, to be effective, such a model requires the EIF to take the residual risk beyond the amount that the facility can cover considering only the EU contribution. The following table show the difference between an uncapped guarantee model with or without the participation of the EIF.

Table 6. Uncapped guarantee model projection without the EIF sharing the risk

In this case, the net EU contribution of € 169.2 million can produce a limited leverage effect of 2[185]. It would allow to cover only 11,000 individual transactions for a total amount of credits of € 338 million, **covering a mere 7 to 12% of the financial gap** estimated in section 2.4 and serving less than 3% of the number of European SMEs in the cultural and creative sectors. This quantitative impact would therefore be considerably less than in sub-option 3a of a capped guarantee.

Year	Annual contribution to Fund	Cumulated contribution	Cost = EIF Fee = 6%	Net Contribution to fund	Cumulated Contribution to fund	Cumulated Amount of credits covered	Balance of credits after default (guarantees called)	Nbr of transactions
2014	10.000.000	10.000.000	600.000	9.400.000	9.400.000	18.800.000	16.920.000	169
2015	20.000.000	30.000.000	1.200.000	18.800.000	28.200.000	56.400.000	50.760.000	508
2016	30.000.000	60.000.000	1.800.000	28.200.000	56.400.000	112.800.000	101.520.000	1.015
2017	30.000.000	90.000.000	1.800.000	28.200.000	84.600.000	169.200.000	152.280.000	1.523
2018	40.000.000	130.000.000	2.400.000	37.600.000	122.200.000	244.400.000	219.960.000	2.200
2019	30.000.000	160.000.000	1.800.000	28.200.000	150.400.000	300.800.000	270.720.000	2.707
2020	20.000.000	180.000.000	1.200.000	18.800.000	169.200.000	**338.400.000**	304.560.000	3.046
Total	**180.000.000**		**10.800.000**	**169.200.000**				**11.167**

Table 7. Uncapped guarantee model projection with the EIF sharing the risk

Should the EIF accept to share the risk on its own balance sheet (putting at stake its own assets), the multiplier would be around 10, according to the EIF experience. It would allow covering over 55,000 individual transactions for a total amount of credits of € 1.7 billion, **covering 35 to 60% of the financial gap** estimated in section 2.4 and serving between 8 and 14% of the number of European SMEs in the cultural and creative sectors. This quantitative impact would therefore be better than in sub-option 3a of a capped guarantee.

Year	Annual contribution to Fund	Cumulated contribution	Cost = EIF Fee = 6%	Net Contribution to fund	Cumulated Contribution to fund	Cumulated Amount of credits covered	Balance of credits after default (guarantees called)	Nbr of transactions

185 1 / (50%*100%) = 2

2014	10.000.000	10.000.000	600.000	9.400.000	9.400.000	94.000.000	84.600.000	846
2015	20.000.000	30.000.000	1.200.000	18.800.000	28.200.000	282.000.000	253.800.000	2.538
2016	30.000.000	60.000.000	1.800.000	28.200.000	56.400.000	564.000.000	507.600.000	5.076
2017	30.000.000	90.000.000	1.800.000	28.200.000	84.600.000	846.000.000	761.400.000	7.614
2018	40.000.000	130.000.000	2.400.000	37.600.000	122.200.000	1.222.000.000	1.099.800.000	10.998
2019	30.000.000	160.000.000	1.800.000	28.200.000	150.400.000	1.504.000.000	1.353.600.000	13.536
2020	20.000.000	180.000.000	1.200.000	18.800.000	169.200.000	**1.692.000.000**	1.522.800.000	15.228
Total	**180.000.000**		**10.800.000**	**169.200.000**				**55.836**

However, the EIB Group has indicated that it is not interested in taking part of the risks of an uncapped guarantee debt instrument for the cultural and creative sectors onto their balance sheets. Indeed, they do not have the same level of expertise in estimating the risks of these sectors as in the research and innovation sectors where they have a long track record.

Social Impacts

Common to both sub-options

A major social impact of the cultural and creative sectors is their contribution to employment. CCS are knowledge intensive, requiring specific skills and high-level qualifications of their workforce, and labour intensive, especially those with a high concentration of creative inputs. The contribution of the CCS to employment is usually significant; typically, they account for around 2 to 8 per cent of the workforce in the economy, again depending on the scope of the sector. The job-creation potential of these sectors can be important in policy terms. Furthermore, it is sometimes noted that the quality of jobs generated by the CCS economy may provide greater levels of employee satisfaction than more routine occupations because of the commitment and sense of cultural involvement engendered among participants in a creative endeavour.

This option would lead to an improved dialogue and trust building between the cultural and creative SMEs and financial institutions as it would involve considerable capacity building for financial institutions increasing their expertise and knowledge in the sectors. Additionally, SMEs in the cultural and creative sectors could benefit from this capacity building by developing the appropriate skills to elaborate business plans and to prepare accurate information of their projects that would help the financial intermediary evaluate the cultural and creative projects in an efficient way.

6. COMPARING THE OPTIONS

6.1. Comparison of options

This section compares the options on the basis of effectiveness in terms of achieving objectives, efficiency, coherence with the Creative Europe Programme and coherence with overall EU strategies related to the cultural and creative sectors. The options are then ranked on this basis.

Generally speaking, the use of financial instruments has a higher effectiveness and efficiency than grants. Indeed, it allows the Commission to multiply the effect of the EU funds and to achieve a much larger impact for the final recipients than if it provided the financial support directly. This is due to the impact of additional investments from investors that would not invest or would invest less had the EU contribution not been there.

Section 5 describes the main effects and impacts of the each option. Table 3 summarises these impacts in relation to the effectiveness of the options in meeting the objectives of the programme (as defined in section 3).

Effectiveness criteria

In order to assess the effectiveness of the options, their results and impacts have been analysed for a series of key drivers derived from the objectives. The following drivers are those that have been identified as most relevant:

- Multiplier effect: how many EUR from the private sector will one EUR from the EU budget generate?

- Volume of loans to CCS: what will be the amount of loans issued to SMEs in the cultural and creative sectors generated by the option?

- Geographical coverage: how many financial institutions from how many Member States will be active in offering bank credits to cultural and creative SMEs?

- Administrative costs/barriers/delays: direct financial support such as grants are normally only offered at a certain time of the year and SMEs normally have to wait up to six months to know whether they have been selected.

- Business capacity building: how will the option encourage financial institutions to develop their own in-house expertise in the CCS (investor readiness)

- Structuring effect: how will the option encourage cultural and creative SMEs to limit their reliance on public subsidy and instead turn to other forms of financing such as bank loans?

Efficiency criteria

In order to assess **efficiency** of the individual options, direct costs related to the facility (fund management fees, expected loss and capacity-building costs), and EU management costs have been taken into account.

Coherence criteria

Both internal and external coherence of the instrument are also considered as comparison criteria.

– Option 1 - Baseline

The Commission would benefit from the experience gained in the management of the MEDIA Production Guarantee Fund for film producers, as it could draw lessons from the challenges encountered in the previous operational period.

- In spite of its high multiplier/leverage effect[186], the current budget allocated to the MEDIA Production Guarantee Fund would be largely insufficient to have a real impact on the issues facing SMEs in the whole cultural and creative sectors as already mentioned in Section 2.5.2.

- The volume of loans would most likely be at par with the current MPGF or in the range of €100-150 million[187]

- The geographical coverage would most likely be quite limited but would gradually build on the success of the previous fund

- There would however be limited capacity building among financial intermediaries as the MPGF offers only indirect capacity/expertise building.

- Administrative costs/barriers/delays would continue to be low as the Fund would continue be open to beneficiaries on a continued basis (unlike grants)

- The structuring effect would be confined to film producers as the MPGF would not take into consideration the needs of other cultural and creative sectors

- The direct costs would most likely be similar as in the previous fund (depending on the fee structure) and administrative costs would probably be similar too.

- There would be continued efficiency as a financial instrument managed by a third party would require less administrative management

- This option would be coherent with the Creative Europe Programme although it would be restricted to film production

- This option would be coherent with the overall EU approach to cultural and creative industries As far as external coherence is concerned, this option would be consistent with the Treaty on the Functioning of the European Union (TFEU), Europe 2020, and the Digital Agenda.

  – Option 2 - No action

None of the key drivers; multiplier, volume of loans, geographical coverage, business capacity, structuring effect would be positive for the No action option in comparison with the baseline. Should there be no financial instrument available for the film sector or other cultural and creative sectors, support to the sector will continue to rely primarily on public grants, which will incur more costs to the EU budget resulting in negative effects in terms of efficiency and effectiveness of EU action. As explained earlier, issuing grants would be more costly as fewer projects will be supported with EU funds than through a leveraged financial instrument which offers the re-usage of funds. Furthermore, giving only grants to SMEs in the

186 The Commission estimates that, thanks to the leveraging effect of the MEDIA Production Guarantee Fund (€ 8 million), more than €100 million will be freed up for loans to film producers. This is partly due to the high leverage offered by IFCIC (x10) which in turn does not allow for used EC funds to return to the EU budget. Audiovisual SGR offers a 4-6 times leverage and they also add €2 million of their own funds to the MPGF.

187 Depending on the EU contribution to the new scheme

cultural and creative sectors would result in a less structuring effect, lower competitiveness and financial capacity of the cultural and creative sectors with no loans being guaranteed. Naturally there wouldn't be any direct costs involved with this option but administrative costs would most likely be higher as actions would only be implemented through grants which involve higher costs as can be attested from the EACEA example given in option 3 of this section.

Finally, any complementarities or coherence with other internal EU and external cultural and creative actions would be neutral.

– Option 3 – Setting up a Cultural and Creative Sector Guarantee Facility

The Cultural and Creative Sector Guarantee Facility option would help increase the overall effectiveness and efficiency of EU support policy for cultural and creative sectors and it would address the sectors' specific financial needs with sufficient critical mass and a targeted approach, thus resulting in a real impact.

Both sub-options would offer:

- Greater competitiveness of SMEs in the cultural and creative sectors as they will have easier access to private sources of funding. This option could also have a strong structuring effect as it could reduce the heavy dependency of CCS on public subsidies (in the long term).
- Innovative business capacity building within financial intermediaries could encourage banks to change their standard practice of demanding **personal collateral** from SMEs operating in the cultural and creative industries and instead accept other forms of assurances such as pre-sales contracts, various forms of grant agreements and catalogues of intellectual property rights (IPRs).
- The Cultural and Creative Sector Guarantee Facility would be available to beneficiaries on a continuous basis and they would be informed in a relatively short period whether their application has been accepted or not. This option would therefore limit administrative costs/barriers/delays
- Wide geographical coverage as the priorities are to encourage the geographical spreading of expertise/capacity throughout the EU and to maximise the geographical diversification of financial institutions willing to work with the CCS.
- This option would also lead to improved efficiency as a financial instrument managed by a third party would require less administrative management for the Commission than for those actions which are being managed by the executive agencies. Fees to the management institution of the Cultural and Creative Sector Guarantee Facility will have to be negotiated at a later stage with the aid of DGs ECFIN and BUGD.
- Overall it would also lead to improved **internal coherence** of the Creative Europe Programmes since, as explained in the MEDIA and Culture strands impact assessments, the support to certain players of the sector and to certain types of action could be progressively shifted from direct grants to loans. The overall action in favour of CCS would have 2 different instruments at its disposal to provide the most

appropriate type of support to each beneficiary and for each type of project. Also, it would contribute to go one step further thanks to a common approach to cultural and creative sectors under the Creative Europe framework and would contribute to its general objective.

- As far as **external** coherence is concerned, this option would be coherent to the overall EU approach to cultural and creative industries; it would be consistent with the Treaty on the Functioning of the European Union (TFEU), Europe 2020, and the Digital Agenda.

The main differences between the sub-options concern the multiplier/leverage effect and the costs for the European Commission.

Multiplier

- Sub-option a) will offer a multiplier effect which according to the EIF would be in the range of 5.7x and would provide high volumes of loans to SMEs in the cultural and creative sectors (see also section 5.2.) Indeed, money invested in guarantee facilities has a higher leverage effect than direct subsidies, by attracting additional sources of private and public finance. Although this is a lower multiplier than currently offered by IFCIC (x10), it is more advantageous as the money invested in the CCS GF will return to the EU budget (apart from fees, defaults and costs) while funds used by IFCIC to guarantee loans will remain with the IFCIC solidarity fund. Also, the instrument would be more effective since the creditors will be able to call the guarantee as soon as a default of payment is reported, while in the case of IFCIC, the guarantee can only be called in case of bankruptcy of the borrower.

- Sub-option b) will however only offer a multiplier of 2 which is considerably lower than for sub-option a) or for the baseline, given the impossibility for the EIF to share the risk related to the CCS GF.

Management and direct costs

- Transaction costs for sub-option a) have been estimated at less than €1.000, including both the EIF fees and the expected loss. The cost per transaction is calculated by dividing the total costs (annual EIF fee, capacity building programme, expected and unexpected losses) by the expected number of transactions (see table 4.).

In comparison to the baseline, this would represent a significant cost-efficiency improvement. Indeed, the current cost per transaction under MEDIA for awarding grants is currently estimated at over €3,400[188]. The costs under the current MPGF are expected to be much higher, given the important investment required to set up a pilot action both for the Commission and the delegated bodies. Statistics based on the first year of implementation suggest that the cost per transaction is much higher than for sub-option a).

- Sub-option b) would however have considerably higher costs involved (need to demonstrate the cost for the uncapped model here

188 The total administrative cost of the EACEA for the management of MEDIA projects was €8.607.000 in 2010, for approximately 2.500 grants awarded.

As far as sub-option b) **with** the EIF taking the risk, there are a number of obstacles to the setting up of such an instrument:

– An uncapped guarantee debt instrument with the EIB Group taking part of the risk, would require charging a considerable fee for the guarantees[189] which would limit the interest of the instrument for financial institutions. The experience of the MPGF where a guarantee fee is charged also shows that these fees are too expensive and constitute an obstacle for some banks to engage in the process. The solution may be to pass on the additional cost to the final beneficiary, which would however be contrary to the objectives of facilitating access to bank loans[190]. The guarantee fee will be free for the capped guarantee model (sub-option a), conditioned to the benefits being passed on by the financial beneficiary in terms of interested rate rebate and no private collateral requested on these loans.

– The EIB Group has indicated that it is not interested in taking part of the unexpected losses of an uncapped guarantee debt instrument for the cultural and creative sectors onto their balance sheets as it does not have the expertise in estimating the risks of these sectors.

– It would also be more feasible for DG EAC to adopt a capped guarantee model in line with current Commission financial instruments such as the SMEG and build upon their experience.

– From a general market point of view, the perception of high risk associated with these sectors naturally leads to the necessity of limiting the guarantee level that can be offered.

– As far as the guarantee rate of 50% is concerned, various consultations with the private and public financial sector indicates that, in order for banks to play a greater role in the "whole" of the cultural and creative sectors and not just in film production, it would be necessary to have a **higher guarantee rate** than the 50-55% offered by the MPGF.

On the basis of the multiplier and costs criteria, it can be concluded that sub-option a) Capped guarantee model is much more effective and efficient than sub-option b) Uncapped guarantee model **without** the EIF sharing the risk.

Additionally, given all the obstacles and disadvantages associated with sub-option b) Uncapped guarantee model with the EIF sharing the risk, sub-option a) is more feasible than sub-option b) Uncapped guarantee model **with** the EIF sharing the risk.

189 The fees to be paid by financial institutions to benefit from an uncapped guarantee would be very expensive in order to compensate for the high risk exposure that the Fund would need to take.

190 In France for example, banks using the national IFCIC guarantee mechanism charge the final beneficiaries with premium interest rates, in order to cover for the guarantee fee charged by IFCIC. Producers consulted have expressed that the financial costs related to loans granted by these banks are prohibitive (up to 12%).

Table 8. Comparing the options

		1 Baseline	2 No action	3 Cultural and Creative Sector Guarantee Facility	
				3a Capped Guarantee Model	3b Uncapped Guarantee Model
	Effectiveness				
KEY DRIVERS	Multiplier effect	0	– –	++	+
	Volume of loans to CCS	0	– –	++	+
	Geographical coverage	0	– –	++	+
	Business capacity building	0	–	+	+
	Administrative costs	0	–	+	+
	Structuring effect	0	–	++	+
Direct costs		0	++	–	–
Efficiency Management costs		0	0	+	+
Coherence with other strands of Creative Europe Programme		0	0	++	++
Coherence		0	0	+	+
	Overall assessment	0	– –	++	+

6.2. Preliminary modalities for implementation of the CCS GF

Should the new cultural and creative sector guarantee facility be incorporated in a larger Commission financial instrument, four key implementation modalities have been identified which ideally would be fulfilled, in order to reach the objectives of the CCS GF[191].

1. Create a specific window with its own earmarked / ring-fenced budget

In order to retain control on the use of the contribution of DG EAC to a larger instrument, it would be necessary to create a specific window with its own earmarked / ring-fenced budget that would be exclusively dedicated to the support of SMEs of the CCS.

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191 These modalities have been discussed with other Commission services. It appears that it should be possible to implement them within a larger instrument.

2. Fit into the overall framework and adapt intervention modalities to the specific CCS needs

While the instrument would need to fulfil the requirements set out by DG ECFIN and fit into the overall framework of a larger financial instrument, it would have to respond to the specificities of the cultural and creative SMEs. Indeed, as mentioned in point 2.4 the cultural and creative SMEs have specific problems with regard to access to finance which the instrument would have to take into account both in terms of the mechanism and technical specificities. For example, policies in terms of collateral requirements, pricing, duration of the guarantees would have to be adapted to this specific sector.

3. Keep its own branding, visibility and communication strategy

Given the high level of recognition and notoriety of the MEDIA brand in the audiovisual sector, and in view of ensuring high visibility of the instrument in the sector, the CCS financial instrument should keep the MEDIA/Creative Europe brand inside its name (such as the current MEDIA Production Guarantee Fund) and DG EAC should be able to define and implement a specific communication strategy for this particular CCS window.

4. Capacity / expertise building

The setting up of a specific capacity and expertise building programme for financial institutions, as described above must be an integral part of the mechanism, as this will be a key success factor of the CCS financial instrument.

6.3. Possible frameworks for the implementation of a CCS Guarantee Facility

The option to create a stand-alone CCS financial instrument has been discarded in section 4.1. It is therefore more appropriate to insert the CCS Guarantee Facility as a specific window within an existing larger financial instrument. Provided that the four modalities are met, it is expected that the impact of the Cultural and Creative Sector Guarantee Facility will be equivalent regardless of which larger Commission financial instrument it would be incorporated into. The Commission's proposal in the next MFF aims to focus on and strengthen existing financial instruments that proved to be successful, while bringing a strong EU added value and avoiding duplication of already existing schemes at national or regional level.

At present, it remains unclear which DGs will have financial instruments in the new MFF period, although it is quite likely that both DG RTD and DG ENTR will continue to operate financial instruments in the future. Building on the strong track record of financial instruments such as the SMEG managed by DG ENTR under the CIP[192] and RSFF currently managed by DG RTD under the 7th Framework Programme for research, their successor programmes would provide equity and guarantee instruments targeting SMEs that need access to finance.

Following various consultations and research carried out inside and outside of the Commission, it appears that these can be considered as examples of possible frameworks within which the Cultural and Creative Sector Guarantee Facility could be operated.

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192 http://ec.europa.eu/enterprise/policies/finance/cip-financial-instruments/index_en.htm

Framework i) Horizon 2020 - Risk Sharing Finance Facility (RSFF) Debt Instrument

As mentioned in Section 1.3.1, DG EAC has been participating in a working group on future Financial Instruments, organised and chaired by DG RTD. Discussions have taken place with DG RTD concerning the possible inclusion of a guarantee mechanism for the cultural and creative sectors in the Horizon 2020 debt instrument in the form of ring fenced window (compartment) for the CCS. DG EAC would contribute to the window and define eligibility criteria for financial institutions and end beneficiaries. DG EAC would participate in the governance of these platforms along with other policy DGs and DG ECFIN. The management of the instrument would be mandated to the EIF.

The new Horizon 2020 debt platform which will most likely be based on the current RSFF (Risk Sharing Financial Facility) intends to have a double approach in its implementation: a market-driven approach (based on the principle "first come, first served") and a policy-driven approach with earmarked windows for various policy fields, including CCS[193].

The main **advantage** for the Creative Europe programme is that it would involve less responsibility, workload and resource input while allowing reaching its objectives in terms of facilitating access to finance for SMEs of the CCS. Also, it would offer the possibility to use other financial instruments within the RSFF (equity, microfinance etc) and would be less expensive in terms of EIF/EIB fees.

There are however some **issues** to address, such as the level of visibility of DG EAC and its MEDIA brand, the adequacy to the specific needs of the CCS or the need to streamline its technical specificities with RSFF parameters. Additionally, a considerable part of the cultural and creative sectors are not "research or innovation" driven and would therefore not be relevant to the objectives of the new Horizon 2020 Programme.

Framework ii) New DG ENTR debt instrument for SMEs

Although it is unclear at this stage what form the new Competitiveness and Innovation Programme (CIP) will take after 2013, it is likely that DG ENTR will continue to provide financial instruments in favour of SMEs, and notably through guarantee facilities. The CCS Guarantee Facility could potentially be incorporated into a new "SMEG" or "SME Internationalisation", in a similar "ring-fenced window" as mentioned here above, although modalities still need to be further discussed with DG ENTR. This framework would probably be more suitable in terms of policy coherence as it will focus on SMEs with cross-border activities and could offer possible synergies with the Creative Industry Alliance[194] which DG ENTR has recently launched and focuses among other things on capacity building and clusters in the CCS.

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193 This is described in the following manner: *"Earmarking: There will be specific windows catering for (1) a bottom-up, demand-driven, first-come first-served approach, including a ring-fenced part for SMEs and mid-caps, and (2) a policy-driven approach, with loan volume targets for sectors crucial to sustainable growth and competitiveness, namely those covered by the proposed Common Strategic Framework (CSF) for Research & Innovation and by other programmes, such as the successors of the current MEDIA and Culture programme".*

194 Example of this is DG ENTR "Creative Industry Alliance", which is looking at ways to strengthening the investment readiness of SMEs in the cultural and creative industries. Furthermore it is envisaged that the new MEDIA Programme will offer support for various capacity building which will include investment readiness actions.

The same **advantages** as regards to the responsibility, workload and resource input would most likely apply to this framework as well. The **issue** is the uncertainty around concerning future Commission financial instruments, including those for the CIP. It is also unclear whether the four requirements mentioned above can be fulfilled within a new ENTR financial instrument. Indeed, the CIP instruments have so far been insufficiently visible and adapted to CCS needs as they have had a quite general focus resulting in a limited impact for the CCS.

In addition to DG RTD and DG ENTR instruments, the possibility to join forces with DG REGIO / Structural funds to support the CCS can also be considered. Indeed, under the new Multi-annual Financial Framework, the regional policy financial instruments will offer new opportunities to national and regional authorities. For example, Member states and regions will be able to extend financial instruments operated at EU level to be applied to their own territory. In that context, it can be envisaged to extend the CCS Guarantee Facility to specific countries or regions, which would provide additional financing and expand the scale of the CCS instrument [195].

It would be particularly relevant for some of the Creative Europe objectives such as the digitisation of cinemas. Also, it would offer a valuable combination of EU added value and national/regional policies for the CCS. However, it would probably be less appropriate with regard to the EU dimension requirements for the rest of the Creative Europe actions and it is uncertain whether Member States and/or regions will be willing to participate. It would also be difficult to manage, since it would involve a lot of different actors (Member States, regions, Commission etc). This could be achieved through either the DG RTD or DG ENTR platform but further dialogue with DG REGIO is required to investigate these issues[196].

Concerning the two possible implementation frameworks, e.g. placing the CCS GF either under "Framework i) Horizon 2020 - Risk Sharing Finance Facility (RSFF) Debt Instrument" or under " Framework ii) New DG ENTR debt instrument for SMEs, this impact assessment report does not offer a preferred option. This is due to the lack of information about these two instruments at present stage. However based on the facts at hand today, both options would appear to be feasible.

7. MONITORING AND EVALUATION

Monitoring

A key point for the new EU equity and debt platforms is to ensure standardised reporting across instruments which makes it possible to compare the performance of them. In addition, duplication of monitoring should be avoided. An integrated monitoring system should be put in place for the financial instrument to provide reasonable assurance that EU funds are used for the purposes intended, making use of standardised performance indicators and standardised reporting formats in order to allow comparative analysis of the success of instruments. DG EAC will co-operate with DG ECFIN, the EIF and depending on the platform under which the CCS Guarantee Facility will be operated, either DG RTD or DG ENTR on establishing these indicators. The EU Equity and Debt Platforms which are

[195] Subject to competition and state aid rules

[196] The need to comply with new the Financial Regulation and the new rules concerning structural funds, as well as State aid and competition rules would add even more complexity to the matter.

currently being set up by DGs BUGD/ECFIN/SG, will be the key reference for creating these indicators and reporting formats.

The monitoring activity for the financial instrument will include documentary checks based on regular reviews of the reports sent by the EIF and, where appropriate, visits to the EIF and financial intermediaries (FI) which will be set out in an annual monitoring plan.

The monitoring visits are organised on the basis of the respective delegation agreement[197].

Monitoring visits to FIs and EIF are prepared and carried out in accordance with the Annual Monitoring Plan and the provisions set out below.

Monitoring visits take into account the following input:

- Reporting received from the EIF,
- Project file,
- Supporting documentation from EIF and FI.

The output will consist of:

- Notification letters to the EIF and FI,
- Monitoring Visit Report,
- Follow-up letters to the EIF.

EAC staff will contact the EIF and request the organisation of a visit sufficiently in advance for such organisation to take place.The Commission does not contact FIs directly to organise such visits. However, following such visits to the EIF, an FI may be contacted directly for clarification purposes and any missing information as a result of the work done in a visit. The EIF will be kept informed of such contacts.

Visits will be carried out typically by Commission staff from DG EAC and DG ECFIN but this will also depend under which platform the CCS Guarantee Facility will operate. The preparation of a monitoring visit, observations and findings and final report shall be documented.

A more detailed description of the procedures for the monitoring visits and of further monitoring tasks will be developed at a later stage with the relevant Commission services such as DG ECFIN and DG BUDG.

Evaluation

According to the Financial Regulations, financial instruments should be designed in a way that there is appropriate information to carry out intermediate and *ex post* evaluations and in particular, to analyse their impact on the basis of pre-defined indicators.

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197 The type of the agreement with the EIF depends on the new Financial Regulation. The current agreements with the two managers (IFCIC and Audiovisual SGR) of the MPGF are Delegation Agreements based on Art. 54 of the FR.

The following indicators have been established for the ex-post evaluation of the financial instrument:

- The volume of loans granted to cultural and creative SMEs.
- Number and geographical diversification of financial institutions involved in the financing of the sector
- Number, national origin and sub-sectors of final beneficiaries benefitting from the guarantees

Commission guidelines on interim (mid-term) and ex post evaluations may need to be adapted to the financial instrument but in order to enable the results of the interim evaluation to be taken into account for decisions on renewing, modifying or discontinuing the successor financial instrument, it should be conducted roughly four years prior to the expiration of the financial instrument, currently envisioned for 2020. If it were conducted too early, there would be too little experience to evaluate; if too late, the results could not be fully factored into the next multiannual cycle. This implies that the interim evaluation of the successor financial instrument should be conducted in 2016, assuming no change in the planned year of expiration.

Table 9. Indicative indicators

Related objective	**Type of indicator**	**Indicator**	**Source of data collection**
General objective: To foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth	Impact	The sectors' share of employment and share of GDP % of people reporting that they access European cultural works	Annual European competitiveness report, evaluation Regular Eurobarometer surveys
Specific objective: To strengthen the financial capacity of the cultural and creative sectors	Result	The volume of loans granted in the framework of the financial instrument The number and geographical spread of financial institutions providing access to finance for the cultural and creative sectors The number, national origin and sub-sectors of final beneficiaries benefitting from the guarantees	Evaluation; reporting by the EIF and the financial intermediaries

Table 10. Indicators with current situation and targets

Indicator	Current Situation	Targets (over 7 years)
Specific Objectives		
Strengthen financial capacity		
Volume of loans granted in the framework of the financial instrument	[MEDIA Production Guarantee Fund: €18 million worth of loans]	**1 billion worth of loans**
Number and geographical spread of financial institutions providing access to finance for the cultural and creative sectors	[MEDIA Production Guarantee Fund: Banks from 7 different countries]	**Banks from 10 different countries**
Number, national origin and sub-sectors of final beneficiaries benefitting from the instrument		**15.000 beneficiaries, 15 different countries, 5 sub-sectors (film, video games, publishing, music, design)**

8. ANNEXES

8.1. Annex 1 - List of consultations and studies

– **MEDIA Meets the Film Funds -** During the Cannes Film Festival in May 2011, the MEDIA Programme organised a second meeting of international, national and regional film funds as a follow-up from last years successful film fund meeting. One point on the agenda was "The MEDIA Production Guarantee Fund and new EU Financial instruments. How can they strengthen the European audiovisual industry and what are the possible opportunities for film funds?"

The main conclusions from the second panel of this meeting were:

- A guarantee facility for the cultural and creative sectors would be welcomed by the financial institutions
- Guarantees for gap financing could be part of the new instrument but this would most likely be used by investment funds and not banks
- National and regional film funds could use the new financial instrument for their own purposes, where their contribution would be "ring-fenced" for their respective territory. They could co-invest in the fund, in the same way as ICAA (Spanish national film fund has co-invested in the part of the MEDIA Production Guarantee Fund managed by SGR Audiovisual).
- The Commission will continue this dialogue with film funds as the preparation for the new financial instrument progresses

– **Meeting with DG REGIO:** DG ECFIN/L2 organised a meeting between DG REGIO/D3 and DG EAC/D3 on the possible alignment of Structural Funds with the Cultural and Creative Debt Instrument on June 16th 2011. REGIO informed EAC of its proposal for the Structural Funds' new regulations which could enable a wider use of financial instruments.

– **Recommendations from the European Platform on the Potential of Cultural and Creative Industries**: This Platform, created in 2008 in the context of the EU structured dialogue with civil society, is a group of more than 40 organisations representing a wide range of cultural and creative sectors. Through policy recommendations and public advocacy, the platform aims at highlighting the fundamental role of cultural and creative industries in Europe and unlocking their full potential. In the autumn 2009, the Platform produced a report containing a set of recommendations. One of the recommendations was to **develop financial tools adapted to the needs of cultural and creative industries such as public private loan guarantee schemes**, cultural and creative SME- friendly growth loan finance etc.

– Recommendations from the Member States Expert Group on "Maximising the potential of Cultural and Creative Industries, in particular that of SMEs": This group, set up in the framework of the implementation of the European Agenda for culture, produced a set of recommendations in June 2010. Mentioning the good practice of IFCIC in France, the report calls for developing financial mechanisms' benchmarking (caution, guarantees, loans, investments, bonds, export incentives, etc.) to facilitate conditions for cultural businesses/projects to accede to private funding mechanisms and for stimulating the release of capital from financial institutions dedicated to the cultural and creative sectors, specially SMEs, including with the support of guarantees of the EIF

– Study on the **"Entrepreneurial dimension of cultural and creative industries"** (2011): The aim of this study was to provide a better understanding of the operations and needs of companies in the cultural and creative sectors, especially SMEs. The study underlines transversal problems common to all these industries and indicates specific challenges that prevent them from benefiting from the internal market and the digital shift. In doing so, it looks at key determinants for strengthening entrepreneurship within these industries, notably access to finance. It describes access to finance as the greatest obstacle faced by entrepreneurs and enterprises in cultural and creative sectors. It recommends that support opportunities should be developed for all sectors of the cultural and creative sectors at their crucial points of their relative value chains. In this respect, it calls for EIB and EIF Funds to back national or regional initiatives aimed at developing guarantee schemes.

– Mini-study carried out for DG ENTR of the European Commission on the **"Access to finance activities of the European Creative Industry Alliance"** (2010): The study describes access to funding as a core barrier to growth for many businesses in the cultural and creative sectors and highlights the lack of investment readiness for cultural and creative SMEs (in particular due to the lack of information and understanding about sources of relevant finance or the difficulty to present a business model that meets the criteria of the bank/investor community) as well as the lack of investor readiness. It also identifies some equity and non equity-based (such as guarantees) schemes existing at national level.

– Study project on "**Promoting Investment in the Cultural and Creative Sector: Financing Needs, Trends and Opportunities** (2010)[198]: The study provides an analysis of the financing needs of the cultural and creative sector and identifies opportunities for improvements in access to finance within the sector in some European countries. It underlines that access to finance represents a challenge for 85 % of companies surveyed in the course of producing the report. It also reveals that according to a survey conducted in the Netherlands one in seven creative businesses call on external finance but less than half expect to get financing when needed, compared to two in three SMEs from other sectors. The study concludes that due to a market failure public intervention is justified – for example in the form of guarantee schemes – to trigger more private investment in this sector and unlock its very high growth potential.

8.2. Annex 2 - Commission guidelines on Financial Instruments

In the evaluation of the options above, it is important to keep in mind that specific requirements[199] have been defined at Commission level with regard to Financial Instruments. In the next Multi-annual Financing Framework (MFF), the EU level financial instruments are guided by the principles for the design of new Financial Instruments as endorsed by the Commissioners' Group and the principles in the Budget Review documents, in particular:

- EU level financial instruments should play a more important role in helping reach Europe 2020's policy objectives.

- EU level instruments should be coherent, have the critical size/mass to attract interest and commitment from financial institutions, make an impact in the market and ensure a broad reach-out to final beneficiaries as well as visibility.

Furthermore, according to the proposed changes to the Financial Regulations, financial instruments shall comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment, in accordance with the objectives and for the duration established in the basic act that applies to those financial instruments. They shall comply also with the following conditions:

(a) added value of the EU intervention, which means that financial instruments shall only be implemented at EU level where their objectives, in particular by reason of their scale or effects, can be better achieved at Union level than at national level;

(b) they shall be implemented in order to address sub-optimal investment situations, which have proven to be financially viable but do not give rise to sufficient funding from market sources;

[198] Carried out for Nantes Metropole in the context of the Interreg-funded Ecce-Innovation

[199] Conceived as a new set of standardised common rules and principles for equity and debt instruments, the aim of the EU Debt and Equity Platforms is to simplify the task of policy DGs or families of such DGs in designing new instruments themselves. The plan is that standard, non-policy specific issues will be settled at the level of the Platforms (Such as, for example, capital accumulation rules and transparency principles), with the specific features required to cater for a particular policy or set of beneficiaries incorporated in the design of individual instruments.

(c) additionality, which means that financial instruments of the EU shall not aim at replacing those of a Member State, private funding or another financial EU intervention;

(d) financial instruments shall be implemented in a way which does not distort competition in the internal market;

(e) they shall have a multiplier effect, which means that the Union contribution to a financial instrument shall mobilise a global investment exceeding the size of the Union contribution according to the indicators defined in advance;

(f) (appropriate measures shall be put in place to ensure that the entrusted entity has aligned interest, which means that when implementing financial instruments, the Commission shall ensure that there is a common interest in achieving the policy objectives defined for a financial instrument, possibly fostered by provisions such as co-investment, risk sharing requirements or financial incentives, while preventing conflict of interest with other activities of the entrusted entity.

8.3. Annex 3 – Eligibility criteria for SMEs to have access to the CCS GF

For the avoidance of doubt, regarding eligibility criteria, CCS SMEs shall meet at least one of the following criteria:

1. SME intends to use the SME loan to develop a CCS project as evidenced by the business plan,

2. SME NACE code is one of the following:

R91.0.1Library and archives activities
R91.0.2Museums activities
P85.5.2Cultural education

…..

Full list to be completed on the basis of ESTAT and with industry associations[200]

3. In the last 24 months, the SME and/or the project promoter/team must have met one of the following sub-criteria:

(a) CCS projects developed by the CCS SME and/or the project promoter/team have received grants/loans/funding/guarantees from European or national CCS institution or association over the last 24 months including those of the EU´s Creative Europe Programme (MEDIA and Culture).

(b) CCS projects developed by the CCS SME and/or the project promoter/team have been awarded a CCS prize over the last 24 months;

[200] Work is ongoing at ESTAT level to identify the NACE Codes corresponding to cultural activities. Work is expected to be finalised in 2011.

(c) CCS projects developed by the CCS SME and/or the project promoter/team have filed copyrights, trademarks, distribution rights or any other equivalent rights[201] in the field of CCS in the last 24 months;

(d) CCS SME investors have benefited from tax credit or tax exemption related to development of IPRs or CCS activities in the last 24 months;

(e) CCS SME has demonstrated to the Financial Intermediary that it has developed its activity in the field of the CCS in the last 24 months.

(f) CCS SME falls under the eligibility criteria for the EU´s Creative Europe Programme (MEDIA and Culture)

(g) Requirements with regard to the project / work financed:

– Type of work (film, book, music, concert, etc)

– Specific criteria for each type of work (for ex. Length of film, etc)

– European content (European Test)

– Exclusion of certain types of works

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[201] According to local jurisdiction, IPRs might be held in different legal formats.