

Mapping of Nordic Creative and Cultural Industries: Financial Environment





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Foreword

This report was produced by Creative Industries Management for KreaNord in 2012, and builds on a mapping of the financial environment for cultural and creative industries in the Nordic region.

KreaNord was launched in 2008 as part of the Nordic Council of Ministers' globalization initiative, aiming to develop and promote the Nordic region as leading within cultural and creative industries. KreaNord have since established cross-sectoral policy cooperation between the culture and business authorities in the Nordic countries, produced a range of reports and mappings, as well as having launched several projects, for instance about entrepreneurship in artistic educations and about financing opportunities for the creative industries. The KreaNord program ended in 2015.

Following the end of KreaNord, this report was republished in 2015 along with several other KreaNord-reports.

Executive Summary

Nordic knowledge based economies are facing the *challenge to reconceive innovation which creates shared value*. Shared value creation orientates on *needs of society*. It appreciates knowledge and competence but also *creativity and talented individuals*. Potential for value creation resides in *creative economy concept*, which combines arts, culture, business and applies technological innovation. It is released in *creative processes*. Shared value is born when *societal value is turned to economic value*. This happens by bringing content related products and services at the reach of approving audiences.

Creative economy and creative and cultural industries (CCIs) in the core of the concept have been debated, studied and promoted widely during recent years. Numerous analyses provide evidence on CCIs' potential for growth and wealth creation by exploitation of intellectual properties. Because of that the access of creative economy and CCI businesses to finance is an extremely relevant issue both from policy maker's and the innovation system's point of view. This mapping report aims to deliver relevant information on present situation in Nordic countries and conclusions for the use of KreaNord, the Nordic platform to initiate joint-Nordic development activities.

Due to the very nature of CCIs as *content driven* and *project oriented* businesses, access to finance faces *business specific challenges*. CCIs are heavily reliant on talented individuals and teams, which are accompanied by *uncertainty* related to creation and acceptance of novel and unusual. Creative processes combine creative and other professional resources and *challenge the management* even more than in manufacturing or technology-oriented enterprises. Business is hit driven. The evaluation and assessment of intellectual properties, uncertainties and other CCI characteristics present a particular funding challenge for creative industry businesses.

CCIs are not best served by model of industrial development with large investments, long amortization times and (tangible) collateral arrangements. Equity finance with venture capital often suit well to technology driven high growth companies with large negative cash flow before revenue and profit generation. But in many cases best instruments for content driven activities of creative and cultural industries are based

on *project funding* already customary in many creative fields. Project finance takes risk on project entity, processes and intangible assets. It is generally provided as *debt or instruments related to debt*.

Nordic countries are known for welfare society concept, extensive public financial and advisory support for business, massive investment in R&D (research and development) as well as multiform subsidy and grant supply for culture. National special finance institutions provide a wide range of customized *corporate equity, loan and guarantee instruments* to any eligible business. The public contribution in development of VC industry has been decisive. Governmental venture finance through industry-specific and regional VC funds is in place even now, when private activity has faded.

Public financing is focusing on entrepreneurship, corporate and R&D but ignoring still intellectual properties as an asset category and source of wealth and wellbeing. However, recently also Nordic innovation agencies and some of special finance institutions have activated themselves in re-conceiving innovation and designing experimental pilot programmes accordingly. In emerging R&I (research and innovation) strategy both shared value creation and creative economy concept are considered. The pilot programmes of today focus e.g. on conceptualisation and customisation of experience, tourism, health and wellbeing services.

Private finance reaches from philanthropy to venture capital. CCI insiders form traditionally the major source of finance for entities and processes of content and social value development. Their offer and participation is not institutionalised but based on industry networks.

Financial institutions looking for shareholder value are concentrating in mainstream businesses of corporate clients. Financial demand, investment proposals and assessment methods related to content, creative process and intellectual property are unfamiliar do not constitute a motivating business potential for financial institutions.

The present situation for CCIs to access finance can be summarized as follows:

- The financial environment is facilitating the access to corporate finance for CCIs same way as to any other company or entrepreneur. That concerns business support, corporate equity, debt and guarantee provision.
- The supply of project finance requested by CCIs, is rare or non-existing. Project finance, if any, is mostly provided as debt but might be tailored in any other type of instrument depending on the risk – reward philosophy.

The EU Commission has conceived the present European situation and future challenges based on same type of analysis and observations. Recently communicated framework programme for cultural and creative sectors, Creative Europe 2014–2020, includes also a new financial Facility “to meet the request for finance, which cannot be tackled through grants and to encourage a shift from a mentality of grants to loans.” The debt finance for CCIs and projects will be channelled through financial intermediaries. Thereby the Facility seeks to achieve systematic impact by increasing the number of financial institutions with expertise in CCI evaluation and assessment.

Recently drafted initial EU Risk-Sharing Financial Facility (RSFF) seems to focus besides R&D to *R&I and Growth*. Facility will provide *debt finance* for *R&I entities of any size and ownership, which, in principle, can repay the loan*. That is closely related to the very nature of creative economy process oriented innovation:

- This report concludes the findings as market failure in supply of debt instruments for creative economy and industries companies, projects and processes.
- Its is recommended that KreaNord takes an initiative to draft a development process and an initial concept for Nordic Creative Economy Debt Finance Facility and invites Nordic Innovation, innovation agencies and special finance institutions to consult the draft concept and its implementation.

1. Introduction

Knowledge and creativity are powerful instruments in development of products and services to meet the requests of various audiences in today's globalizing world. Creative economy has emerged as one of the major thematic concepts in recent economic developments. Great success stories of creative industries, although representing a small proportion of a large number of total efforts, have captured the imagination of policy makers, entrepreneurs, media and population at large. A number of companies have grown from modest starting point to world wide companies in times very short compared to traditional industries and the names have become household brands all over.

These success stories have been facilitated by various factors like powerful information technology tools for creative products and processes, internet and mobile telecommunication technologies for marketing and distribution and platforms for creation and distribution of creative content. The emergence of network economies has increased significantly the access opportunities for content creators all the way to the new media, where content is created by users.

Various studies and initiatives of recent years (EU and Nordic Green Papers, UNCTAD Creative Economy Report, Creative Europe, Financing High Growth Firms – The Role of Angel Investors etc) have been examining CCIs and creative economy concept and its development dimensions. In most reports the access to finance is seen as one of the obstacles in emerging creative economy and society.

What is meant with that? Creative and cultural industries in the core of the concept are one of the most dynamic sectors of economy and contributors to GDP as well as important drivers of economic and social innovation in many other sectors. To unleash their cultural and economic as well as catalytic potential fully, the major challenge of financing is the very nature of CCIs.

The purpose of this initial KreaNord project is to map creative and cultural industries financial environment in Nordic countries, the potential sources of finance, their strategies and instruments as well as the interest of major providers in Nordic cooperation. The report concludes some recommendations, too.

The report is expected to form a continuum with NICE project Evaluation and Assessment of Creative Economy Projects and Processes, which was completed September 2011. In doing so the same definitions, viewpoints and assumptions are used in both reports.

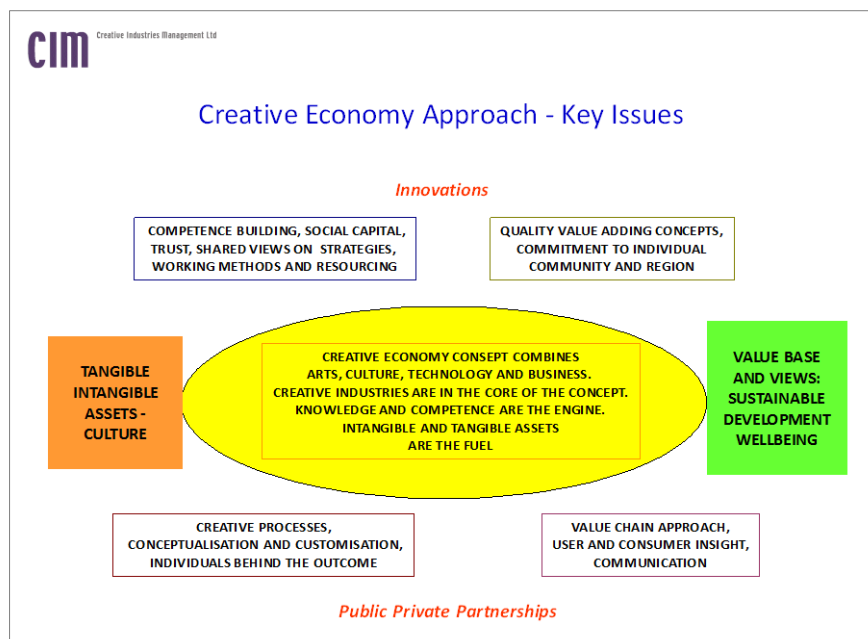
1.1 Creative economy

Creative economy concept forms a framework, offers a viewpoint and help us to structure this mapping report, too. In the core of the concept are creative and cultural industries. Typically the activities of those are organized and implemented as project oriented entities of any size by SMEs, entrepreneurs or networks.

According to the UNCTAD Creative Economy Report “the creative economy is not precisely the same as the rest of the economy and merits separate attention as internally coherent and sufficient different area of economy.” It is not seen as monolithic as capacity oriented industries but has a multitude of dimensions. It creates besides economic also social, cultural and sustainable development value, which are related to each other.

Creative economy concept stimulates to combine different resources (technology, arts, business and culture) and competences in user and consumer driven value adding concepts and processes. The created value is anchored in culture and consists essentially of content and meanings. The raw material of creative economy are tangible and intangible assets and the engine knowledge and competence. In the core of the concept are the creative and cultural industries. Their working approach is project oriented and characterized by conceptualisation and customisation.

Creative economy resides in quality and communication. The concept opens a view to read and understand the challenges of changing operational environment and turns them in choices, initiatives and commitments to create value for various stakeholders simultaneously.



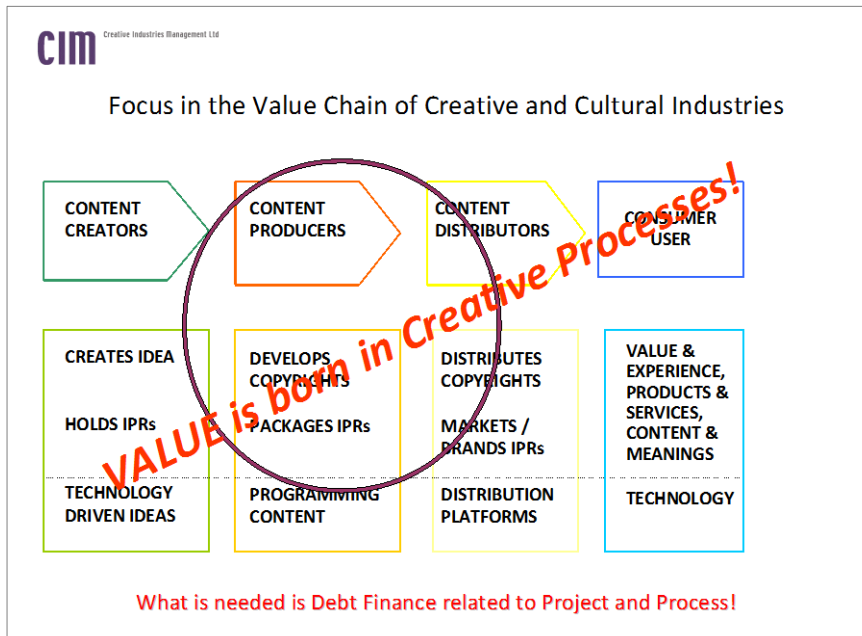
1.2 Creative and cultural industries

There have been various attempts to define creative and cultural industries. That is mainly for provision of evidence based analyses on economic but also societal significance for use of policy and decision makers. Most of definitions are based on industrial sector oriented classifications and, if possible in existing statistics.

To make a difference between some other activities creating also cultural value, we understand in this context as creative and cultural industries any economically oriented organized activity developing content and meanings and related products, services and environments for clients or clients' clients. The key competence is the management of intangible assets and intellectual properties (IPRs) and related creative processes.

Creative and cultural industries can be characterized as project oriented economic activities. Related processes can be organized as different legal entities and managed by various types of management structures. The owners of concepts reach beyond companies and individuals to many forms of organisation and contractual arrangement; project company, special purpose economic unit, cooperative or documented economic entity or Arbeitsgemeinschaft as examples.

Therefore the provision of finance requests accordingly besides understanding on IPRs, project and process finance viewpoint and related assessment methods, too.



1.3 The very nature of creative economy and industries

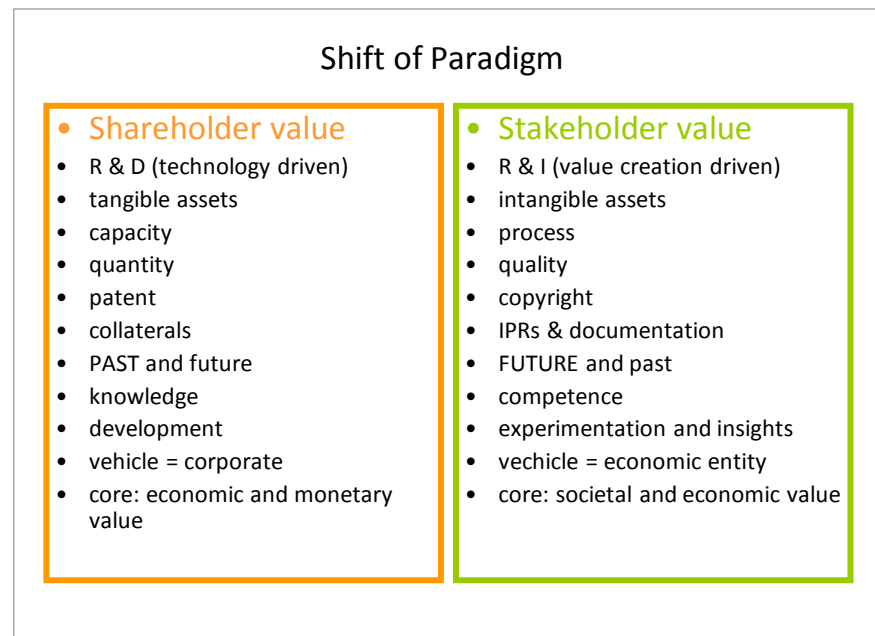
The key resource of creative economy is a competent and creative individual. That is why the very nature of CCI resides also in uncertainties/moral hazard issues/non-pecuniary objectives and management related to conceptualisation and creative processes targeting on creation of *social value*, which in turn is converted by customisation in *economic value*.

The drivers of our knowledge economies have been the Nordic value base and technological development. The Nordic societal ideals combined with innovation system focusing on technology proved to be a success concept. CCIs are also part of knowledge economy. But knowledge alone is not enough for emergence of value and quality oriented creative economy. Context related competence and insight are vital in shared value creation. The challenging feature of CCIs finance is the abstract related to creation and value.

Continuously changing world requests however for review of conceptions, strategies and practices. The table below describes some indica-

tors of still prevailing *corporate and capacity oriented approach driven by shareholder value* and those of emerging *value and quality oriented approach of stakeholder value* conception. The indicators are covering those evaluation and assessment dimensions and parameters, which were found relevant and useful in NICE Evaluation and Assessment of Creative Economy Concepts and Processes – project, too.

The concepts/approaches are not to be understood as alternatives but complementing each other. The core of the shareholder value is monetary value. The project approach pays more attention to social value addition. Combining both we are moving to the direction of shared value creation and – creative economy approach.



1.4 Creative economy financial environment

Creative economy concept, which orientates at and sources more and more purposefully from culture and immaterial assets, has a financial environment, which is more versatile than manufacturing and technology driven industries. Value adding concepts and processes in the core of creative activities often combine public and private interests and attract commitments from various stakeholders and resources from multitude of providers; customers and partners, from philanthropy to strategic investment and exploitation of rights.

Value creating concepts and processes differ significantly from traditional fields. Therefore their financing methods should take this in account. Creative industries are not best served by model of industrial development with large investments, long amortisation times and collateral arrangement. Equity finance and venture capital often suit for technology driven high growth companies but in many cases best instruments for content driven development of creative industries are based on project related debt funding already customary in many creative fields.

Since the outbreak of financial crisis we are experiencing the consolidation era of the financial industry characterized by request on intensified regulation, increase of transparency and appreciation of societal challenges. The shift of paradigm from shareholder to stakeholder value is taking place. The venture capital industry did not succeed to meet the high-return expectations of investors and is therefore stagnant and down also in Nordic countries. Commercial banks and institutional investors are even more reluctant than before to take unfamiliar high risks especially related to content, intangibles and CCIs's moral hazard and uncertainty and rather concentrate in mainstream businesses only.

In the framework of emerging stakeholder value paradigm the government owned and public sector related special finance institutions and innovation agencies are in the pole position in paving the way for the emerge of creative economy and creative industries. They do expect returns not only in flourishing and competitive value creating economy, but also in societal terms.

Now it is to anticipated that the role of patient investing individuals, families, foundations and communities might get more important in prioritizing development agendas and allocating resources to value creation initiatives and activities.

2. Project overview

2.1 KreaNord

KreaNord is an extensive Nordic initiative, aimed at improving the framework conditions of the region's cultural and creative industries. KreaNord was established in 2008 under the auspices of the Nordic Council of Ministers and functions as a Nordic platform for exchange and policy development. (1)

KreaNord acts as a multidisciplinary focus for experiences, knowledge and development visions that cover both the business and cultural sectors. KreaNord contributes to an enhanced co-ordination between the Nordic countries, draws up policy recommendations and initiates joint-Nordic development and profiling activities.

2.2 Project

Mapping of Creative and Cultural Industries Financing in Nordic Countries is a KreaNord project including to the policy area two (2), which aims to contribute in facilitating CCIs to reach global markets, access financing and network and gain commitments internationally. The assignment to map relevant sources of financing, their strategies and applied instruments, conclude and draw some recommendations, which is the initial part of potential two-stage whole, was given to Helsinki based CIM Creative Industries Management Ltd (CIM) late October 2011.

This report concentrates in those relevant sources of creative and cultural industry finance and their financial instruments, which expect commercial approach of an investee (company, project or other economic entity) and principle capability to reimburse the funds. The finance can be provided as equity, debt or guarantee instruments. Furthermore, some support or grant type of facilitating instruments will be introduced as well.

2.3 Methodology

The working method is based on desk (web) research and interviews (mail, phone, visits) considering also the recent projects like Creative Economy and Financial Environment of NDPC Programme (2010) and NIC project on Evaluation and Assessment of Creative Economy Concepts and Projects (2011).

The working process commenced late October 2011 by contacting KreaNord representatives and relevant named organizations as well as researchers, innovation organisations and financial institutions in Nordic countries and Faroe Islands. Desk research included also identification and studying of relevant reports.

2.4 Background

In order to contribute to the competitiveness and development of national and regional economies, governments and public sector organisations launched in late 2000 strategic programmes to facilitate the emerge of creative and cultural industries and creative economy. Expectations focused both on the growth of separate industries and their impact on GDP as well as contribution to cross-sector activities creating new value adding concepts, practices, products and services and thereby economic growth. The programmes were launched mainly before the outbreak of financial crisis 2008 in environment, which was still dominated by shareholder value paradigm.

Implementation has resulted a number of studies, reports and mapping exercises to facilitate the debate on how to define the concepts and gather the evidence on the economic and societal impacts. In Finland for example, the report *From Fragmented Policies Towards Ecosystem of Creative Economy – The Final Report on The Development Strategy for Creative Economy 2008–2011* was issued October 2011.

“The purpose of the programme was to advance entrepreneurship within creative industries sector by removing the bottlenecks hindering the development.” The efforts focused on improving the preconditions for innovation and business development. Those included e.g. “use of creative work on labour market, development of operational environment for creative enterprise, product development and operating models and forecasting and research.”

Besides Final Report e.g. mapping of creative industries (Fact Sheet) and financial environment (Creative Money) were issued in digital and

print. Advisory and competence development tasks were delegated to industry driven promotional organisations like Creative Finland, Diges, Neogames, SME Foundation etc.

Similar strategic programmes with sub-programmes delegated to newly established or existing promotional organisations have been designed and implemented in all other Nordic countries, too.

The above emphasises the role, which public sector adopted in prevailed shareholder value world as facilitator and policy maker – not as an owner of or committed client in concrete development projects. Recently the expectations towards public sector development contributions have often been articulated expecting more operative input instead/besides policy recommendations. That was to be read also in KreaNord evaluation.

3. Creative economy financial environment

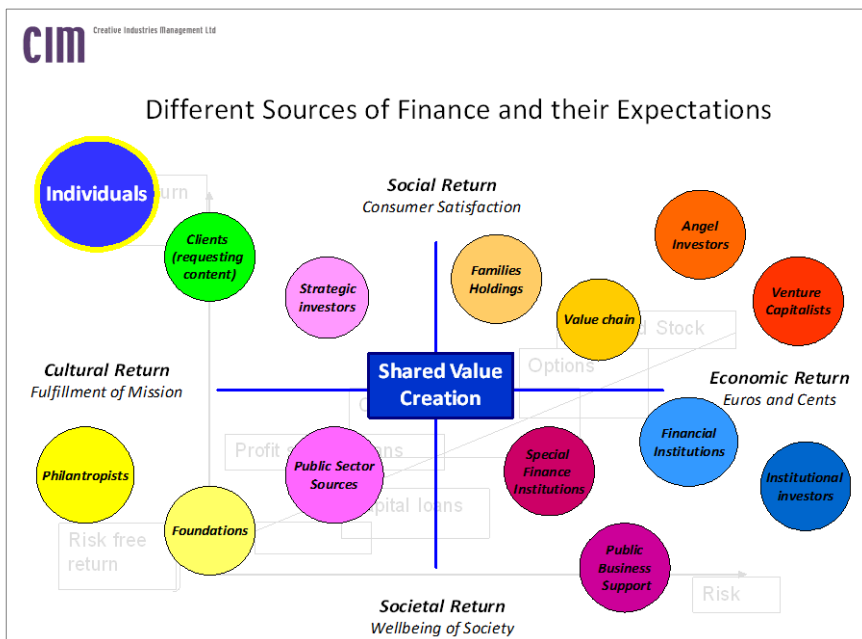
3.1 Risks and rewards in focus of resource providers

When evaluating and assessing a financial request or an investment proposal, any resource provider/financier is focusing on risks and rewards. He uses criteria and methods related to mission and strategy. Those are supposed to deliver information on eligibility and parameters and arguments to draw conclusions and facilitate decision-making. The criteria are depending of respective mission and expected return, which might vary from development impacts in societal and/or economic value to short terms maximised profits or any mix of those.

Until recently dominating shareholder value paradigm was pointing out unilaterally the economic value creation. Deregulated markets were expected to take leading role and initiative in drawing and implementing development agendas. Capital market was anticipated to provide solutions to any need and contribute thereby to real economy growth. Public sector adopted the role of a facilitator and promoter and adopted efficiency and productivity as precept and dictate.

Venture capital advocated a modern financial instrument and funds a risk-spreading vehicle. Financial theories provided a number of methods to assess monetary returns. Methods focused on value increase of an investee and required recognizable exit options as well as quantitative and measurable dimensions and variables, which fitted to the needs of corporate financiers and capital market players and furthermore, to those of technology and R&D oriented innovation promoters, too.

Risks and rewards, in a straightforward relation to each other, entail different measurable parameters in the emerging stakeholder paradigm. If financial actors are interested in creating value shared by various stakeholders, as was the case amongst partners of NICE assessment exercise, then it follows that they need to assess risks in relation to new rewards.



3.2 Public supply

Public provision of financial support and funding to business and entrepreneurship is by nature facilitating and organized and governed to avoid distortion of competition but correct market failures. Supply is available to any company or entrepreneur qualifying and meeting respective terms and conditions of eligibility. The project support and finance is available in only very limited extent. That applies also to creative and cultural industries except grants by promoters of culture. The prevailing supply approach could be characterized as corporate and R&D driven.

3.3 Business support and advice

Business support and advisory systems and related programmes and products in Nordic countries are extensive and diversified. The support and advice are at reach of any entrepreneur and early stage company as e.g. start, development and preparation support, support for employment, competence development and external expertise, export activity support and as variety of entrepreneur loans. Systems and programmes, which are owned and managed by ministries or closely linked promo-

tional agencies, are also at the reach of creative and cultural industry entrepreneurs, companies or other legal entities and economic units. However, the transparency of the offer is said to be insufficient.

Paradoxically public sector, which is under huge pressure to balance debt-driven activities by cutting expenditures and prioritizing investments, has become again due to declined private interest also the major provider of equity and debt to high-risk company formation and entrepreneurship. The supply is channelled through public agencies and market failure correcting special finance institutions and funds.

3.4 Innovation agencies and special finance institutions

The prominent Nordic innovation systems and major agencies authoritative today, have been established in emerge of high technology in 80's to advance R&D activities owned by public and private institutions and corporations. In order to avoid distortion of competition, as regulated by international agreements, the agencies condition principally the financial support only to separately organized R&D projects applying allowed terms, conditions and rates and amounts.

Recently Nordic agencies have launched creative economy oriented pilot programmes, too. That occurred in the context to re-conceive innovation, strategy, approach and working methods to meet the challenge of *value creation based growth*. R&I (research and innovation) programmes related to new strategies are underlining the *process nature of network and customer oriented innovation* – creative processes. The programs are focusing e.g. *concept design* related to leisure and tourism, fashion and retail, learning and education and health and wellbeing services.

The government owned special finance institutions, credit and guarantee agencies, funds of funds and e.g. closed end and evergreen seed funds implementing politically defined normative tasks by the means of finance and advice, seek to act where market failures are identified and proven. Funding is soft (accepting higher risks than private sources) and versatile including equity, debt, hybrid and guarantee instruments. The funding is provided as corporate and/or to some extent project finance und customized also by programmes. The institutions are exercising solid industry practices.

3.5 New challenges

Both innovation agencies and special finance institutions are experiencing pressure for regeneration facing new challenges, which reside in the changing operational environment and value base. A border view of innovation is conceived and piloted particularly by agencies seeing elements and assets for growth in value creation concept and various creative and cultural industries and their process oriented working methods.

VINNOVA, the Swedish innovation agency sees, that “effective innovation requires collaboration and co-creation between customers and suppliers.” In order to succeed in that “collaboration driven innovation across disciplines, sectors and organizational boundaries needs to be strengthened.” A broader view of innovation includes re-conceived customer and partner relationships as well as offer of product and services and operational modes and value chain.

3.6 Creative and cultural industries related special programmes

The government owned special finance institutions (and their owner’s representatives as well) are reluctant to customize the supply of products and services considering characteristics of business and industry sectors. However, they do tailor political preferences as customised offer, women and entrepreneur loans as example. As institutions applying financial industry practices, they operate mainly as corporate and in some extent project financiers. The major challenge of institutions is to deal with value creation and assess intangible assets related to creative and cultural industry companies and projects.

Therefore also Nordic authorities in charge for economic development consider still more feasible (than require sub-ordinate organisations to develop and provide sectoral finance) to design and allocate support for competence development of CCIs and/or their clients acquiring external expertise. It is anticipated that the more business oriented companies and entrepreneurs will have better access to existing supply of public support and corporate and project finance as well.

As examples to above phenomenon we refer to:

- Danish CKO (Center for Culture and Experience Economy) managed grant program “for projects that create growth from collaboration between cultural life and business life.”

- New program of Swedish Tillväxtverket providing development vouchers for “stimulation the competitiveness of creative and cultural industry companies.”
- The CreaDemo grant programme provided by Finnish Ministry of Culture and managed by AVEK (The Promotion Centre of Audiovisual Culture) “to support the development projects of creative and cultural entrepreneurship.”

3.7 Private supply

Nordic societies are characterized by strong and multifunctional public sector, which has extended its role as politically motivated grant provider all over in culture and cultural related businesses, too. As a result of that the sourcing of private and commercial resources has become second and more cumbersome option for many content creators and cultural operators and entrepreneurs.

Traditionally the creative and cultural industries are funded besides value chain related revenues by grants and subsidies. The equity finance is provided by founders, owners, families and friends, which might be understood also as “business angels” with personal preferences rather than articulated expectations on high monetary return. Besides to that, today equity is provided in Nordic countries only by government owned seed funds and programmes, which might be managed by private companies and combined with private contributions (e.g. Danish SEED Capital Fund).

Creative and cultural industry companies are mostly micro or small size service providers, which grow, if ever, organically. Exceptions are made by e.g. game and social media developers applying technological innovations to reach even global audiences. Generally speaking, SMEs request working capital or project related grants and/or commercial finance to develop their business (that is processes, competences and customer relationships) as well concepts customized in products and services.

3.8 Philanthropists, foundations and wealthy families...

As earlier found, the creative economy financial environment is more versatile than for instance technology and shareholder value driven ones. The difference is to be explained due to following:

CCIs are in the core of creative economy concept, which is bound for stakeholder value creation – demonstrated in various type of return – money and impacts. When complementing the characterisation with the project and process oriented way of working, it becomes apparent that variety of resource providers have an opportunity to carry out their mission by committing and contributing to creative processes during initialisation, planning, development, implementation and exploitation – each according respective mission.

That is why also philanthropists, foundations, wealthy families and individuals, who might look for return other than short term profits, are increasingly potential sources of finance for value creation. The participation of foundations as direct investors (not grant providers) requests however facilitating legislative environment, which treats investments in stocks and equity equally.

3.9 Strategic investors

Value creating processes request resources in various forms; equity and debt finance, competences, insights and commitments of other value chain and ecosystem actors. The co-creation with client or client's clients from the very beginning is the pre-requisite for innovation success.

The role of strategic investors in innovation and business is principally very important as provider of both finance and insight, experience and competence. During last two decades business was dominantly shareholder value driven. Company and corporate activity as strategic investor become burden from stock value point of view and went totally down. That happened unfortunately at the same time when government owned companies were privatised and public sector understood investment rather as expenditure.

It is to anticipate that the strategic investment activity is going increase again. The private and also public companies and other entities are looking for shared value creation, related innovations, new ways of working and reconceived products to reinvent themselves and the busi-

ness. The creative and cultural industries have the opportunity to contribute to that trend.

3.10 Banks and venture capitalists

Access to finance for any innovative firm and other economic entity involves both equity and debt finance. Already before the ongoing financial crisis banks were reluctant to invest in (lend to) small and new firms due to perceived risks and lacking collateral. The role of banks is therefore depending about the willingness of governments to take more risk on CCI activities – first and foremost on their projects – by providing e.g. guarantees for debt finance.

Venture capital funds, which attracted the attention of institutional investors and captured the minds of policymakers, too, were established mainly in 90s and focused exclusively on new technology development and related growth expectations. The public initiative and European, national and regional public contributions in funds, were in the key role in emerge of VC industry. However, from the beginning of 00s establishment of new funds declined dramatically and fewer and fewer venture capitals invested in start-ups and early stage companies. Fore the time being private early stage VC industry is practically non-existing.

However, there was an pilot VC fund focusing in CCIs; on the peak of technology boom in 2000, Helsinki based CIM Venture Fund for Creative industries L.P. was established as the first European fund focusing in creative industries. It was learned, that a VC fund was not the optimal vehicle to match the interests and bring together institutional investors (expecting high returns based on value increase of an investee) with producer mind set driven CCI entrepreneurs or SMEs (able in best case to create good project related income stream).

3.11 Angel Investors

The down turn of VC industry is probably why the expectations of policy makers on emerge of angel investment concept, which has existed for centuries, are now rapidly growing. The recent OECD report, *Financing High-Growth Firms: The role of Angel investors*, approaches the potential of angel investment from the viewpoint of seed and early stage corporate financing and identifies some of the key success factors, challenges and trends. Yet little is known about angel investment. The OECD

report describes the market and the policies utilised for facilitation of market development.

What is known according to the report is that market is not homogeneous and angel policies are rather regional than national. Angel investors, who have not (according applied definition) necessarily personal connection to the entrepreneur prior to investment, operate traditionally locally and are therefore also supporting wider range of innovation and sectors than technology oriented venture capitalists. Due to that it is expected that angel investors could get involved “in companies that are not necessarily technology intensive or high growth as well as companies in later stage of development.”

Could the angel investors be interested in investing in creative and cultural industries as well? What kind of return or mix of returns is expected? Does the region facilitate an entrepreneurial ecosystem with the range of creative economy stakeholders willing to commit and contribute?

In order to answer to that it is necessary to pay attention again to the true nature of project oriented creative and cultural industries.

Regardless to ongoing change of paradigm and strengthening stakeholder value creation concept, it is to be anticipated that capital market will continue to expect investees to generate short-term profits. But many financiers and resource providers are committed to contribute also in societal and economic development. They do welcome the ongoing shift of paradigm (from shareholder to stakeholder value) and make an effort to deepen their understanding and assessment competence on competition and value creation. They are interested in opportunities maximising the shared value instead of short-term profit.

Considering above, angel investors are to be seen as potential source of regional and local funding. Furthermore, their commitment or contribution might take place in other forms like disposing facilities or similar, too.

Angel investors are organised and present in Nordic countries depending on the country and culture. Swedish landscape is characterised by both national and many regional associations and 3000–5000 members investing ca 200 million euros annually (half of that in young mainly technology driven companies).

In Finland there are two recently established organisations; InvestExtra managed by governmental seed fund Veraventure and FIBAN, which was initially an angel program of SITRA recently turned to private initiative. The management is still covered by public support. Both have some 100 registered members. Business angels are first and foremost interested in technology driven ventures.

In Norway there has been various attempts but no success to establish formalised angel networks. Attempts have been initiated by business development service providers and maybe therefore truly potential angel investors have behaved non-committal. Today only informal networks of individuals, wealthy families and foundations are to be identified locally. They spread their investments over various sectors including creative CCIs projects, too.

4. More on creative economy

4.1 Creative economy concepts and processes

The creative economy can be characterized as project oriented world. Besides new knowledge and capacities, context related competences, understanding of concepts and processes, it calls for rethinking approaches and organization. The owners of different activities reach beyond companies and entrepreneurs to many forms of enterprises, organisations and contractual arrangements. The key issue is value creation meeting expectations of different stakeholders. The growth of creative industries and economy is based on successful projects and related processes. The provision of finance requests accordingly project finance viewpoint and related assessment methods.

A creative industry and economy financier is therefore assessing risks and rewards focusing besides company, on project and related concept and processes as well as content and intangibles. He does not base decisions and design applicable solutions on expectation on value increase and – often purely theoretical exit opportunities. That is why also the valuation of an investee leads mostly to wrong track since the finance are related basically on project and processes.

4.2 From Shareholder to Stakeholder Value

The creative economy concept and related theories are reflecting the shift of paradigm from shareholder to stakeholder value, which is clearly detectable since the credit crush of late 2000. New views and evidence are looked for future oriented policies and strategies, launch of promotional programmes and other measures and – at the end of the day – review of own roles and missions.

A major challenge for public sector bodies is the creation of shared views and e.g. inter-ministerial strategies reaching beyond own sectorial mission and allocation of available funds accordingly.

Other sectors of society are meeting the similar challenge. Shared views, mutual trust, appreciation of others' views and interests as well as commitment to common targets are needed to add stakeholder value.

This has a relevance also to versatile and multiform financial environment of creative economy. The emerging value base might motivate the variety of providers to review their role, mission and approach as well as necessary risk and reward assessment methods. We believe that in order to achieve even better results, the pre-requisite will be the interest to take an opportunity and participate in un-conventional value creation and creative economy projects.

4.3 New ways to achieve economic success

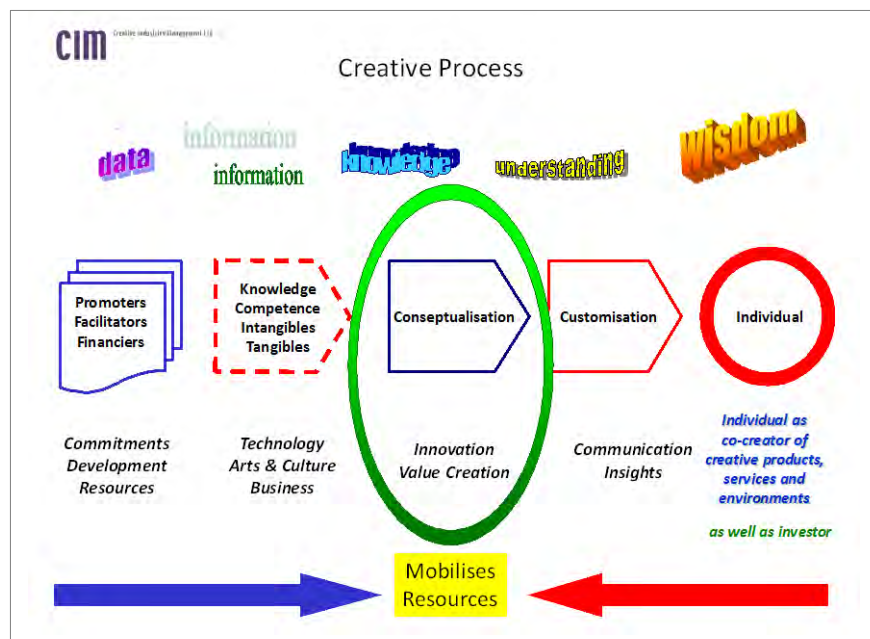
Economic activities and related decisions were dominated during the last twenty years by capital market appreciating short term financial performance – shareholder value. Since the economic down turn and collapse of financial system the prevailing and continuously emerging atmosphere indicates changes in our value base – request on stakeholder value creation.

Michel Porter writes in his paper *The Big Idea – Creating Shared Value* on the siege of capitalism system and how the business has during recent years been viewed as a major cause of social, environmental and economic problems. “The companies which are widely perceived to be prospering at the expense of the boarder community must take again the lead in bringing business and society back together.” The solution lies in the creation of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges.” He underlines that shared value is not social responsibility, philanthropy or even sustainability but “a new way to achieve economic success.”

The creative economy concept, which orientates at and sources more and more purposefully from culture and immaterial assets creating stakeholder value, seems to come very close to the principle of shared value. It requests also greater understanding of the “true base of economic productivity and success and ability to collaborate cross profit and non-profit boundaries.” The competence development calls for appreciation of others’ insights and skills as well as besides economic also societal needs. The shared value is created by Porter by re-conceiving products and markets, redefining productivity in the value chain and building supportive industry clusters. “Instead of manufacture demand creative industries do put the question, is our product or service good for customer.”

5. Evaluation and Assessment of Creative Economy Concepts and Processes

The hypothesis behind recently implemented competence development project was that “in the framework of creative economy concept resource providers and financiers are facing the challenge *how to assess and evaluate* the development of content and immaterial asset driven activities and businesses.” Furthermore, it was anticipated also that besides applying corporate finance viewpoint, the project finance viewpoint focusing on concepts and processes would open up opportunities to participate and adapt available experience and instruments.”



In following the summary and lessons learned are quoted as follows:

5.1 Executive Summary

There is an increasing desire to generate and understand decisions taken in order to finance organisations that make use of concepts and processes in their business models. The core of the project was to explore on what basis these decisions could be justified in creative industries and economy. Thus, the goal of the project was to acquire knowledge and understanding about different viewpoints and approaches on financing of creative economy activities, to network on Nordic level and to discuss the challenges and recommend potential measures and tools for development of financial environment.

Sørlandet Kunnskapspark AS (today INNOVENTUS AS) as the project owner, CIM Creative Industries Management Ltd as manager and other Nordic project partners and Nordic Innovation Centre (NICE) entered October 2010 into a contract concerning a pilot project in financing of creative industries – evaluation and assessment of creative economy concepts and processes.

The working method of this initial competence building project was to identify and invite some Nordic resource providers, particularly special finance institutions, to participate in workshops assessing and evaluating creative economy *concepts* and *processes*.

Workshops were organized in Helsinki May 2011 and in Kristiansand June 2011. Participants (in total 30) included innovation agencies, special finance institutions, regional development companies and other resource providers and relevant organisations. Workshop pilots represented various content-based projects like animation, games and service concepts as well as experience environment and third generation science park project.

Based on project results, one can conclude that the resource providers and financiers (regardless of a mission) have an opportunity to evaluate risks and rewards and take the advantage of creative economy phenomena by applying project finance viewpoint. In this approach value creation, intangibles and customer relationships account and concepts and processes form the evaluation and assessment focus.

Concepts and processes combine distinctively *qualitative aspects*; culture and content, user and consumer insight, value creation and revenue generation capacities. The full assessment of risks and rewards calls for an approach and methods combining social, cultural and economic value evaluation.

From the evidence gathered in the workshops and the surrounding discussions one can confirm that the need for broader approach in as-

sessing concepts and processes is strong. Moreover, all participants expressed a desire to further their knowledge and competence on the subject. Thus, the conclusion from this exercise is that the applied method around these assessments needs to be developed and piloted further.

It also became evident that since what is being evaluated i.e. concepts and processes, is changing, there needs to be more work directly on finding the right ways to develop the tools for assessment. Furthermore, what is being delivered by organisations that are being funded is understood more in terms of shared values and hence this larger concept of value needs to be worked into the assessment process itself.

Lessons learned

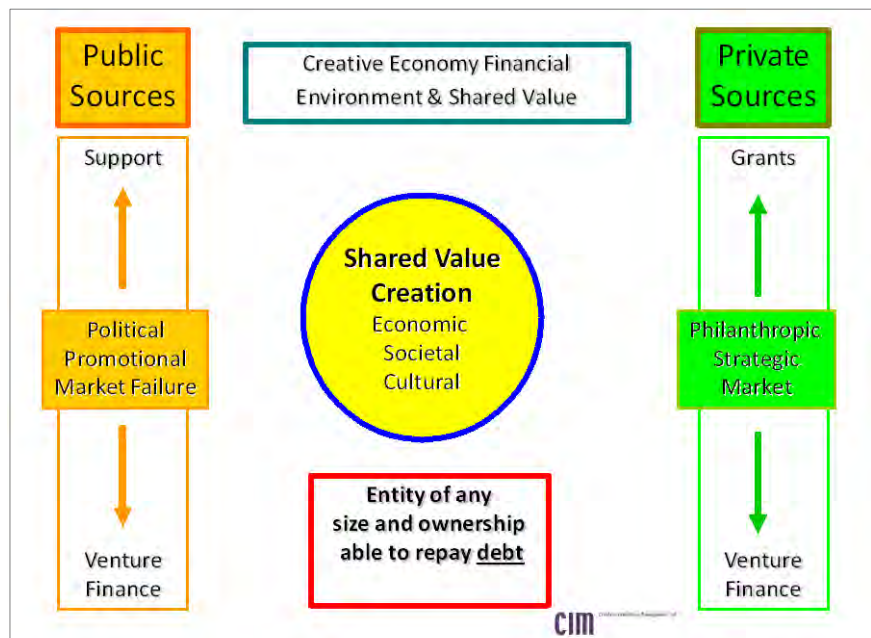
- The often addressed problem – the access of creative industries to financing – lies in outdated attitudes and approaches of both those requesting and providing resources to value creation, which have been dominated recently by *shareholder value* viewpoint.
- Thinking in the terms of emerging *stakeholder value creation* is not yet in the core of strategies nor guiding operational practices of neither public nor private actors.
- Creative economy concept *focuses on creation of stakeholder value – shared value* – and the relationships between cultural, societal and economic participants.
- *Shared value* – any mix of social, cultural and economic value – is demonstrated in concepts and created in processes, which bring arts, culture, technology and business together.
- The assessment and evaluation of creative economy concepts and processes requests the *value creation approach* – both in economic and societal terms.
- Value creation approach combines both quantitative and qualitative aspects and parameters and articulates in cultural, social and economic terms.
- The workshops facilitated an insight to above approach and related initial concept and process oriented assessment practices (introduced by CIM and described in report).
- Financial institutions dedicated to creative economy finance (like Gallion) and to promotion of innovations (like Tekes), contributed to the workshops thanks to their efforts to adopt the value creation approach and to apply suitable financial instruments accordingly.

- The participants shared the view that besides economic value oriented, corporate and value increase focused approach (pointedly: quantitative), the shared value oriented and project focused approach (pointedly: qualitative) are together facilitating applicable assessment tools and providing for meaningful assessment results.

The assessment process that was characterised in the exercise deserves to be developed further. It also needs to be connected to other, similar work on the field, for example the developments where larger social impact is being assessed and the public sector would require to be looked at. The Nordic countries would provide a great platform to pilot this assessment further, due to their openness as societies and quality of data already publicly gathered. Moreover, as societies the Nordic countries are renowned for their orientation to the welfare of all citizens, which is what ultimately, should drive the use of financing instruments as well.

6. Nordic creative and cultural industries financing

The aim of the report to describe financial environment mapping relevant strategic programmes, organisations as well as providers of innovation support and financial instruments. CIM has communicated among others with all parties mentioned below.



6.1 Denmark

In Denmark largely shared view among the public and private providers of commercial finance stresses the corporate finance viewpoint. According to that any economic activity is evaluated and assessed focusing of monetary return potential, repayment capacity and related risks. CCIs are in the same position with other companies and entrepreneurs raising funds. The supply of creative industry project and process funding is very rare.

In Denmark the Enterprise Authority (EBST) as department of the Ministry of Economic and Business affairs (Trade and Growth) is the organisation managing various promotional activities e.g. regional and enterprise development. EBST is also managing the 90 million DKR programme (2007–2012) promoting creative industries and their inclusion by other industries.

Besides funding of CKO activities (below) programme is also contributing to the promotion of four creative industry sector; Games, Fashion, Food and Music.

This major Danish strategic programme will be evaluated in 2012.

6.1.1 CKO

CKO Center for Kultur- og Oplevelsesøkonomie has been established 2008 by the Ministry of Economics and Business Affairs and the Ministry of Culture to promote culture and experience economy and strengthen the collaboration between institutions and businesses. CKO activities and Growth Fund grant programme are funded by EBST. CKO administers also the efforts of KreaNord to promote Nordic creative sectors.

CKO manages Growth Fund grant programme, which distributes 24.8 million Danish crowns to projects that create growth through collaboration between cultural and business life. CKO expects to support four to seven such projects yearly, with both private and public projects being eligible for funding. Businesses compete for these grants and projects will be evaluated in comparison with each other. Grants are given in accordance with government regulations. www.cko.dk

6.1.2 Vaekstfonden

Vaekstfonden is a Danish special finance institution and state investment fund, which aims to create new growth companies by providing venture capital and competence. Vaekstfonden invests equity or provides loans and guarantees in collaboration with private partners and Danish financial institutions. The activities cover the whole country.

In the focus of Vaeksfonden activities are young companies with international growth potential. Sectorally attention will be paid besides Clean-Tech, Energy IT and Life Sciences to Leisure and Gaming, Design and Trade and Services. The finance is provided directly by Vaekstfonden or indirectly through banks as guarantee instruments.

Vaekstfonden has invested in few technology oriented CCI companies like game developers. Project finance is not provided. www.vf.dk

6.1.3 SEED Capital

SEED Capital is the largest early stage venture fund in Denmark. The investment focus on companies within IT, Cleantech and Life Science at the seed or even pre-seed stage from Denmark and southern Sweden. The investees are supposed to be in “classic venture companies meaning companies that as a minimum will provide an opportunity for a 10 x return on investment.”

SEED capital is partnering with the government funded innovation incubator DTU Symbion Innovation, Denmark’s largest and most effective pre-seed venture capital investor (innovationsmiljø) established to finance and assist talented entrepreneurs in developing the companies of the future. Like the five other Danish pre-seed venture investors (innovationsmiljø) DTU mostly invest government capital on behalf of the Danish Agency for Science, Technology and Innovation.

Like in other Nordic countries, the seed investors are looking for companies possessing highly innovative solutions and a scalable business models for entering an attractive market with a number of identified paths to exit. The CCIs are supposed to meet the same criteria to be funded by SEED Capital and DTU. www.seedcapital.dk

The Danish public support and guidance mechanisms that companies can apply for are collected at a webpage: www.vaekstguiden.dk

6.2 Iceland

The creative and cultural industries and their impact on economy has been discussed also in Iceland in a lively manner. Attention has been paid not only on CCIs contribution to GDP but “to synergies within the creative industries as well as with other sectors, including spill-over effects into the wider economy from the video game, film, books and press, performing arts, music, design and visual arts industries.” Recently established Consultative Forum of the Creative Industries initiated a mapping project with the target to describe the economic impacts. The project was funded by five ministries and Promote Iceland.

The extensive and in-depth quantitative and qualitative mapping project Towards Creative Iceland: Building Local Going Global issued April 2011, includes also a comprehensive list relevant sector specific promotional organisations, funding schemes and description of support environment.

The financial environment of CCIs from the commercial corporate and project funding point of view is due to the financial crisis today very

thin. However, existing funds like the independent state owned New Business Venture Fund Nýsköpunarsjóðs takes an active part in business development and growth in Iceland by investing in potential innovative and pioneering firms. Including CCIs. <http://www.nsa.is/>

“The goal of the Fund is to invest in companies from which it can expect substantial added value, profitability and good return. The earnings of the Fund will be used for its further development, investment in innovative and pioneering firms holding promise and research into their operating environment.” The fund has invested also in creative and cultural industries.

Funding schemes and support environment in Iceland are to be found at <http://www.uton.is/wp-content/uploads/2011/10/towardscreativeicelandreport.pdf>

6.3 Faroe Islands

In Faroe Islands, as well as in other Nordic regions, commercial financial instruments exclusive for creative industries are not available. However, Faroese investors have invested in CCIs, too. Besides two government own funds, there are four full service banks providing finance and services. A mapping project of creative industries is planned to be implemented in near future.

6.3.1 *Vinnuframagrunnurin*

The government owned Fund for Promotion of Trade and Industries is providing financial support and grant for innovation and access to new markets as well as creative industries, too. www.vfg.fo

6.3.2 *Framtaksgrunnurin*

The Faroese Business Development Fund, which is government owned as well, is providing equity capital to company formation, development and growth. The portfolio of some 20 investees includes seven investments to be categorized as CCIs; e.g in fashion, music, music publishing. The share of total investments is proportionally fairly low. www.framtak.fo

6.3.3 Bank Nordik

Bank Nordik is a Faroese commercial Bank operational also in Denmark and Greenland. Bank manages also an equity fund without a specific focus with a portfolio of one investment at present. www.banknordik.dk

6.4 Finland

Luova Raha – Creative Money report was issued in Finland 2010 with the purpose to contribute in the discussion on creative industries and economy financing. In order to do that the subject was approached from various viewpoints like sectoral organisations, companies and entrepreneurs as well as financial support and funding organisations. The report concludes, that *only* those areas of economic activities (in this context CCIs), which have been able to organise and establish themselves also as a participant of the economy and its organisations, are in the position to promote their own interests and become a respected industry. CCIs seem to be first in the process to do that.

According to the report public financing is focusing on entrepreneurship, corporate and R&D but ignores intellectual properties (here copyrights) as an asset category and source of wealth and wellbeing. From CCIs point of view IPRs form the assets of the economic entity and IPRs asset management is the key management competence area. IPR development, exploitation and ownership are in the core of creative economy value creation, earning potential and logic, positioning in the value chain and financial standing and negotiation power. http://www.tem.fi/files/29724/Luova_Raha_Nakokulmia_Julkaisu_2011.pdf

6.4.1 ELY – centres

ELY Centres are the implementation tool of the economic development support and advice. ELY Centres (Entrepreneurship, Traffic and Environment) are focusing on entrepreneurship and are providing development support and subsidies to meet various requests: growth, technology, internationalisation, productivity and competence development and tangible and intangible investments. That applies all industries and eligible companies including CCIs. <http://www.ely-keskus.fi/en/frontpage/Sivut/default.aspx>

6.4.2 *Finnvera*

Finnvera Ltd is the nationwide special finance institution providing finance and advice for the whole life cycle of an enterprise: from company formation to growth, internationalisation as well as export operations. Instruments include debt, equity and guarantees. Finnvera is sharing the risk with other investors like banks, national and international institutions etc.

Besides providing debt and guarantee as corporate financier, Finnvera might act on case by case basis as deficit and GAP financier related to projects, too. That has a relevance to CCIs due to the observation that best funding instruments for content driven development are based on *project funding* already customary in many creative fields. A project financier takes risk on a project focusing on and assessing its own merits. Deficit financier provides financing for the project once the industry and value chain related commitments are already in place.

Finnvera daughter companies *Veraventure Ltd* and *Nordia Management Ltd* are potential sources of corporate equity and debt finance for CCIs.

Veraventure Ltd is a venture capital company investing as the hub for public seed and early-stage venture capital in innovative Finnish start-up enterprises (but not projects). Investments are made through Seed Fund Vera Ltd managed by Veraventure. It operates also as a fund of funds and invests in Finnish regional evergreen funds incorporated as company limited. In order to fulfil the expectations as private finance catalyst, it manages a business angel network under the name *InvestorExtra*.

Veraventure has some 20 plus investment in CCIs in its portfolio counting to ca 20% of the total commitment. A typical investment is made in game developer, which industry sector has developed positively and captured the attention of audiences, promoters and investors in all Nordic countries. Growth opportunities are seen particularly in development of social media and mobile games.

Nordia Management Ltd is managing an evergreen fund providing capital to tourism related service companies. www.finnvera.fi; <http://www.finnvera.fi/eng/Venture-Capital-Investments>; www.nordiamanagement.fi

6.4.3 Tekes

Tekes is a major player in Finnish innovation system canalising annually some 600 million EUR to mainly R&D but in growing extent to R&I, too. The beneficiaries are mainly separately organised research and development projects of public and private institutions and companies and corporations. Tekes facilitates the collaboration.

- Between small and large businesses
- Industry and academia
- Public and private sector and non-governmental organisations
- Globally – nationally – regionally

The customers include companies, universities, research institutions, government organisations, local and regional authorities and other organisations operating in Finland.

Tekes promotes a broad-based view on innovation: besides funding technological breakthroughs, Tekes emphasises the significance of service-related design, business and social innovations. The resources cannot be granted to every day business development, creative processes – which would be the request in content driven CCI.

Tekes has however various sectoral programs focusing on the development of new concept and innovative business solutions:

- Sapuska – Added Value for International Food Markets 2008–2012
Tekes' Sapuska programme aims to improve the international competitiveness of the Finnish food industry.
- Serve – Pioneers of Service Business 2006–2013
Serve programme targets to increase and broaden the services development of the Finnish industry and to promote academic research in service related areas.
- Spaces and Places 2008–2012
The programme seeks answers to questions like: What kinds of premises yield the best results? What kind of environment would best promote learning or working? What would a shop that combined virtual, physical and social spaces and places be like?
- Tourism and Leisure Services 2006–2012
The programme encourages R&D activities by companies producing leisure services. Development focuses on new service concepts, new

ways of producing services and the creation of new spatial concepts, such as those utilising virtual technology. www.tekes.fi/

6.4.4 Mediatonic Fund

Mediatonic Fund is an experimental fund of 2 million EUR focusing on and taking risk on game development projects – single productions. The fund does neither participate in the equity of an investee nor become a shareholder but retains negotiated rights on the intellectual properties (copyrights) of the economic entity/production/content and related revenues and income.

The concepts and practices to raise and provide finance related to IPR development are proven practises in some creative fields; film industry and music and theatre productions are known examples. Publishers have acted since centuries like venture capitalist of technology driven economy of today, spreading the risk and taking of opportunity to develop and exploit content by bringing it to the reach of audiences. The recoupment of investment and repayment of contribution is based on related revenue stream of a single production of portfolio of rights under management.

The experimental dimension of Mediatonic is to be seen in the concept of a fund matching the interests of institutional and strategic investors and financial requests of production oriented game developers. Besides sufficient deal flow, success requests manager's in-depth industry knowledge and competence, consumer insight and capacity to assess the content itself. <http://mediatonic.fi/mihin-ja-miten-sijoitamme>

The sources of Finnish support, finance and advice are mapped and presented (only in Finnish) at http://www.tem.fi/files/29724/Luova_Raha_Nakokulmia_Julkaisu_2011.pdf

6.5 Norway

The concept of cultural and creative industries has emerged also in Norway during the last 10 years. More attention has been paid to culture and its potential for economic growth nationally and regionally. In 2007, the Ministry of Trade and Industry launched an action plan for culture and business in cooperation with the Ministry of Culture and the Ministry of Local Government and Regional Development. The programme has come to the end in 2011 and new action plan is in progress to be issued.

The launch and operation of communal or regional financial support programmes focusing on creative and cultural industries and activities is a feature profiling Norway. The programmes are organised as funds or foundations for provision of grants mainly. Funding is provided by national, regional or communal authorities and in some cases matched by private providers. The more commercial money is looking for investment proposals from technology driven content producers like game developers.

Innovation Norway, the state-owned agency that promotes innovation and industrial development, has also put more attention on the cultural industry in recent years. Both the government and Innovation Norway have focused on the film, book and music industries

6.5.1 *Innovation Norway*

Innovation Norway is the Norwegian Government's most important instrument for innovation and development of Norwegian enterprises and industry. It supports companies in developing their competitive advantage and to enhance innovation. In Innovation Norway are combined activities of an innovation agency, special finance institution and export and tourism promotion agency.

Norwegian enterprises including CCI companies have an access to a broad business support system as well as financial means. Innovation Norway provides competence, advisory services, promotional services, foresight and network services. Financial instruments are covering equity, debt, guarantees and grants. The major part of Innovation Norway funding has been provided as grants to separate R&D and R&I projects.

In implementation of the creative industries action plan Innovation Norway had an instrumental role. Creative industries formed one of the nine strategic focuses. However, due to various reasons the strategic priorities since 2011 do not include any more creative industries. Innovation Norway is considering any CCI company or entrepreneur assessing the eligibility equally to any other company. From now onwards the CCI approach is related to tourism as service oriented experience industry sourcing local and regional tangible and intangible assets and culture. www.innovasjon Norge.no

6.5.2 *Regional financial institutions and funds*

INTRO (in Tromsø) INTRO is a national pilot project to stimulate business development in cultural sectors in the Tromsø region by providing

grants to enhance sustainable income for cultural activities and contribute to revenue growth of cooperative enterprises in the creative industries. The programme, which was initiated by municipality, is co-financed by the Culture Ministry and the regional development agency. Term is three years.

Objective of the fund is to stimulate creative industries by the means of finance and attract matching funds from other agencies and providers. The target is to contribute in Tromsø region in establishment of new and development and strengthening of existing businesses. Overall aim is to make the region more competitive and attractive. <http://www.tromso.kommune.no/kulturnaeringsfond.161259.no.html>

6.5.3 *Cultiva (in Kristiansand)*

Cultiva – Kristiansand Kommunes Energiverksstiftelse – was established by the local authority of Kristiansand to ensure that a portion of the profits made from selling shares in Agder Energy Ltd. will be of lasting benefit to the community. The capital of the Foundation per 31.12.10 was amounting NOK 1.389 million. The real return will be used for grants. “The aim of the Foundation is to secure jobs and good living conditions in Kristiansand by providing grants to projects which set up art, cultural, and educational institutions or organisations that contribute to innovation, development and competence-building within the creative milieu of Kristiansand. <http://www.cultiva.no/english>

6.5.4 *Competence Development Fund (in Kristiansand)*

The Competence Development Fund of Southern Norway (CDFSN) shall contribute to raising the level of competence in the county of Vest-Agder in order to secure jobs and good living conditions. Competence here means the ability to create and utilise knowledge for practical purposes. Institutions that receive grants are required to develop knowledge at university and university college level. Support may be granted to public or private research/educational institutions, local authorities, and to public and private enterprises. Funding is not granted to individuals. <http://www.kompetansefond.no/sporsmal-og-svar/>

6.6 BUZZ (in Bergen)

BUZZ is a pilot project in Bergen for promoting music business. Buzz is a regional financial vehicle canalizing public interest in the terms of financial instruments for promotion of music ventures. The challenge with this project is to raise the interest of private investors to share the risk and co-finance regional projects. BUZZ communicates with music professionals on expectations and viable structures and to tailor suitable instruments facilitating the recoupment. In the portfolio are e.g. bands established as company limited.

6.6.1 FUZZ (in Bergen)

Film Fund FUZZ A/S is a limited company established in 2006 to promote and stimulate film and tv production in Bergen and Hordaland – both in terms of quantitative and qualitative. Filmfondet Fuzz's core business is to invest in tv and cinema productions. It is top financing and the scheme is a selective co-production investment. FUZZ operates with both public funds and private investors. Filmfondet Fuzz is owned by Bergen municipality and it is also Bergen municipality which covers the administration costs of running the public/private fund. <http://www.fuzz.no>

6.7 Sweden

In Sweden authorities like Tillväxtanalys, Tillväxtverket, VINNOVA as well Innovationsbron have also the mission to provide national support for the development of creative and cultural industries in their different capacities.

Tillväxtanalys, The Swedish Agency for Growth Policy Analysis (Growth Analysis), has conducted a number of analyses, statistical studies and evaluations on creative and cultural industries. Those has been carried out accordingly to "agency's overriding objective to strengthen Swedish competitiveness and create the conditions for more jobs in more and growing companies throughout the country."

Those include e.g.

- Kulturnäringsars Betydelse i ekonomin på regional och nationell nivå (Dnr: 2010/012).
- Cultural Industries in Swedish Statistics ISSN 1652-0483.

- Politik för Design – En jämförande Analys av fyra Länders Designinsatser ISSN 1652-0483.
- Design for Innovation and Growth – a promising competitive concept in the future? ISSN 1652-0483.
- Kapitalförsörjningssituationen i kulturella näringar.

Creative Stockholm assigned 2011 a report on Finansieringsmöjligheter för Företag I Kulturella och Kreativa Näringar I Stockholmsregionen (Funding opportunities of creative industries in Stockholm region). The work was carried out by Dr. Sara Jonsson. The study focuses on micro and small companies from both supply and demand perspective. Supply side interviews were conducted among investors, banks and Almi (as a special finance institution) as well as two British specialised venture funds.

It was concluded that investors and financiers do not make any difference between creative and cultural and other industries when evaluating repayment capacity and related risk (corporate viewpoint). Since CCIs are strongly individual driven, it was pointed out that the focus of risk assessment do not reside on (specific) industry but entrepreneur (team). It was also found out that most of the CCI companies are to be categorised as life-style entrepreneurs. Banks are reluctant to provide debt finance for early stage activities and even more challenges to meet uncertainty and non-pecuniary objectives related to life-style entrepreneurship. There is a gap, which however, is not necessarily to be considered as a market failure.

From resource provision point of view the institutions stressed the importance to be aware of different type financial contributions (e.g. commercial and promotional) and expectations related to return. Corporate financiers and investors looking for monetary and economic return, do not feel necessarily comfortable to combine resources with promotional and public providers, if their participation includes any restrictions on creation of economic value.

The report indicates that there are challenges to be identified on both demand and supply side. Reason to that might be on one hand the limited number of eligible companies and on the other hand the limited number of investors and their competence. That is why the parties have difficulties to meet and the transaction costs are getting too high. In other words, market is not in place.

The report concludes that public interventions are therefore justified and recommended. The supply of finance to eligible companies should be increased through institutions combining debt finance with industry

specific competence and through providers of risk capital, who have both industry competence and networks.

Recommendations made to Creative Stockholm:

- To launch with Almi a competence development programme for CCIs, which are included to the reach of Almi's activities (debt finance).
- To cooperate with SEB for organisation of workshops to increase the CCIs competence to approach banks.
- Initiate a network of business angels focusing on CCIs.
- Initiate an early stage Internet Fund.

6.7.1 Almi

Almi is a government owned special finance institution providing financing and business development that is complementary to the market. Almi Företagspartner AB is owned by the state. Almi has national coverage through of 17 subsidiaries, which are owned by Almi 51%. Other owners are county councils, regional authorities and municipal cooperative bodies. The number of employees is approximately 450. Almi's task is to promote the development of competitive small and medium-sized businesses as well as to stimulate new enterprise with the aim of creating growth and innovation in Swedish business life, throughout Sweden.

As a national special finance institution providing equity, debt and guarantees and venture capital through seven regional funds, Almi is the major source of corporate finance for CCIs. Almi recognises the potential and specific needs of CCIs and is in the process to adopt instruments to meet the request of value creation of creative economy entities.

The innovation loan of Almi is also a relevant instrument from CCIs point of view. Loan can be used for customisation and access to the market as well as management and safeguarding the IPRs. <http://www.almi.se/>

6.7.2 Tillväxtverket

The Swedish Agency for Economic and Regional Growth has a mission to strengthen regional development and facilitate enterprise and entrepreneurship throughout Sweden. The mission is understood as "the major challenge in the emerging international business landscape." The vision formulated based on that is: *Sweden, a model for enterprise with sustainable growth.*

In its capacity as CCI promoter the agency has design and launched late 2011 a program to support (by 5 million SEK) the business development of creative and cultural enterprises. The country is divided in five pilot regions.

The programme is implemented as an issue of development vouchers amounting to 10.000–25.000 SEK without matching contribution or 50.000–350.000 SEK requesting 30% contribution by applicant.

Vouchers can be used e.g. business and competence development, acquiring expertise or launching of new concepts. <http://www.tillvaxtverket.se/>

6.7.3 Innovationsbron

Innovationbron is a promotion agency established 2005 and owned by the state and Industriefonden. It is active throughout Sweden managing seven regional offices. The mission is to turn research and innovation into business by the means of incubation, advice and expertise as well as financial support and equity investment. The commercialisation may begin from an idea and once the company is equipped to meet the market, Innovationbron plays an active role in engaging subsequent investors.

The focus of Innovationsbron is in the promotion of conceptualisation, customisation and commercialisation of knowledge-intensive product and service businesses. The deal flow consists essentially of service companies and is identified by 70% through incubation system. Innovationbron works closely with Almi and VINNOVA. The Finnish sister organisation is Veraventure, the major provider of seed finance in Finland.

Innovationbron will support also an incubator called Transit, which will concentrate in CCIs. For CCIs Innovationsbron is to be seen as an important potential resource provider. <http://www.innovationsbron.se/>

6.7.4 VINNOVA

VINNOVA, Swedish Governmental Agency for Innovation Systems, has recently renewed its strategy consulting with industry, policy makers, academia and capital market. The process will be continued calling other stakeholders to initiate and address the challenges of innovation and taking simultaneously the advantage of VINNOVA offer. The agency is by applying a challenge driven strategy committed to contribute to the innovation led growth of Swedish economy.

The strategy has following characteristics:

- Addressing the needs of society and industry.
- Promoting cross sector collaborations.
- Fostering systematic approach addressing e.g. social subsystems.

Earlier VINNOVA implemented its mission sectoral. The new strategy addresses the challenge to promote new solutions and practices based on societal needs. Those can be conceptualised and customised as internationally interesting and adaptable innovations by combining resources multidisciplinary.

The four focus areas are:

1. Sustainable and attractive cities.
2. Health wellbeing and medical care.
3. Competitive industry.
4. Information society.

The implementation of VINNOVA's new strategy is related to creative economy and shared value concepts. The evaluation and assessment focus is in creation both societal and economic value. However, the specific innovation strategy is still in the progress. In the core of the support is still R&D project and the experimentation of creative economy entities is not yet eligible stage of activity. VINNOVA is moving to toward R&I strategy. <http://www.vinnova.se/sv/>

7. European approach

7.1 EU programmes

European value adding financial services are also part of Nordic financial environment of CCIs. Recently communicated programme plans and ongoing discussion on future financial instruments, the attention is drawn on following: intention to establish a financial Facility for CCIs and strong emphasis on supply of debt finance for R&I (research and innovation) projects owned and implemented by economic entities of any size and ownership, which are assessed being able to repay the loan.

7.2 Creative Europe

Despite higher than average growth rates of CCIs in many countries in recent years, creative and cultural industries are facing particular challenges due to their very nature. “If they are supposed to realise their potential for further growth, a coherent strategic approach to address such constraints and put the right enablers in place is required:” this is the core aim of Creative Europe, the new framework programme for the cultural and creative sectors (CCS) for the 2014–2020, which was communicated in November 2011.

The programme is considering the challenge of SMEs in general and small cultural and creative enterprises and organisations in particular to *access credit funding* and concluding, that “this serious problem cannot be tackled through grants.” It is estimated that there is an overall funding gap of some 2.8 billion EUR to 4.8 billion EUR in terms of *bank loans* for these SMEs.

The programme aims therefore to set up for the first time a financial Facility for the cultural and creative sectors, which provides *debt finance* and shares the risk of private lenders by providing guarantees. The Facility seeks to provide strong European added value and enable valuable networking and peer learning and leverage private funding. It will seek to achieve a systemic impact by increasing the number of financial institutions with expertise in the cultural and creative sectors and “encour-

age some CCIs to shift from a mentality of grants to loans and strengthen their competitiveness while reducing reliance on public funding.”

Management of the cultural and creative sector financial Facility will be mandated to a third party financial institution, most likely the European Investment Fund (EIF) due to the nature of the expertise required for the running of such an facility.

7.3 Research, Innovation and Growth

EU is discussing also the future financial instruments for Research, Innovation and Growth. According to first ideas the market gaps, which should be addressed through financial instruments, are “investments in knowledge transfer and start-ups, venture capital for fast growing firms expanding on EU and globally and risk-sharing finance for investments in R&I projects as well as debt finance and loans for innovative SMEs and mid-caps.” The access to risk finance for innovative *SMEs and projects* is seen as a key to success.

The improved access to debt finance for “entities of any size and ownership, who are able to borrow and can, in principle, repay the loan” is seen realising to carry out the innovation potential and also rapid growth. This formulation might have relevance also to creative economy activities.

As a potential delivery mechanism is consider a partnership agreement with other financing parties such as international financial institutions and national intermediaries.

The equity finance to be provided aims to develop VC industry, promote early stage and growth phase firms of all size, primarily SMEs. The delivery could be mandated to EIF and other financing partners with international or national status.

We assume that the planned financial Facility improving the access to debt finance, is the major concept to promote CCIS. Furthermore, the concept of initial Risk-Sharing Financial Facility for

R&I&G providing *debt to any legal entity and project able to repay*, has relevance for emerge of creative economy concept.

Conclusions

In preparing this report we have consulted various relevant parties like innovation authorities, special finance institutions, regional funds, foundations, venture capital and angel investor organisations, seed and early stage funds, promotional organisations and authorities in charge for CCI programmes and their implementation. We have also drawn reports and interviews on national current programmes as well as independent studies. Recent NICE report on Evaluation and Assessment of Creative Economy Concepts and Processes, Creative Europe framework programme and the plan of NICE and EIF for establishment of Nordic Innovation Fund have been taken into account, too.

The mapping has focused mainly on provision of public and private financial instruments distinguished from pure grants, which are accessible to creative and cultural industries. Such instruments may take a form of loan, equity or quasi-equity investment, guarantee or tailored product meeting the requests of corporate or project finance. Public sector provision of risk-sharing instruments might combine also grant elements. Typically the public delivery is conducted through various financial institutions and financial market participants.

To unlock the potential of tangible and intangible assets, creativity, knowledge and competence for future societal and economic development urges to redefine Innovation. As driver are seen societal and social needs. Knowledge and creativity are the engine and culture, arts and technology the fuel. It has become obvious that besides technology driven development (R&D) value creation driven projects and processes (R&I&G) request financial support and investments, too.

The challenge for more innovative Nordic countries is faced by innovation agencies as “a need for broader view on innovation across disciplines, sectors and organisational boundaries.” Financial institutions are supposed to find ways to participate in project and process driven businesses and stakeholder value creation, characterised by content, experimentation and intangible assets.

Considering the ongoing financial crisis and the pressure to prioritise and cut public expenditure, it can be concluded that the supply of financial *support and grant programmes* is multiform and covers in some ex-

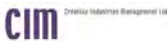
tent industry specific needs. Private and public corporate finance is also, in principle, at the reach of CCI companies and entrepreneurs.

But in the supply of debt finance for “broader view innovation” projects and processes organised and owned by entities of any size and ownership, is to be identified a systematic market failure.

Recommendations

KreaNord acts multidisciplinary covering both business and cultural sectors enhancing co-ordination between the Nordic countries, drawing up policy recommendations and initiating joint-Nordic development activities.

With the reference to conclusions and EU Programme Creative Europe we recommend KreaNord to initiate a design and launch of a Nordic Creative Economy Debt Finance Facility focusing on projects and processes.



Conclusions

- *Public business support* is multiform and provides access for creative and cultural industry (CCI) entrepreneur and company, too
- *Public subsidy programmes* for cultural but also economic value creation of CCIs are many varying from one country to another
- *Public innovation programmes* first in the progress to focus besides R&D (technology development) on R&I (concept and value creation)
- Both public and private CCI *adequate equity supply* is in place
- Public and private *corporate debt* for eligible CCIs is only limited available
- CCI relevant corporate strategic investment is still down
- Private long term investment relevant for development agendas
- ***Project and process related supply of debt for CCI and creative economy entities of any size and ownership is provided neither by private nor public sources – market failure!***

Recommendations

- KreaNord focuses on establishment of Nordic Creative Economy Debt Finance Facility focusing on projects and processes, which are organised as entities of any size and ownership, which in principle, can repay the loan
- In order to do that KreaNord
 - assigns consultant to draft a process and facility proposals
 - invites Nordic special finance institutions, Nordic Innovation and innovation agencies to discuss and consult the proposals
 - concept will be presented to KreaNord ministries and other potential resource providers

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Sammenfatning

De nordiske vidensbaserede økonomier står overfor *udfordringen at genfinde innovation der kan skabe "shared value"*. "Shared value creation" fokuserer på samfundets behov. Teorien lægger vægt på viden og kompetencer, men også på *kreativitet og talentfulde individer*. Potentialet for at skabe værdi findes inden for *konceptet kreative økonomi*, hvilket kombinerer kunst, kultur, erhvervslivet og anvender teknologisk innovation. Værdi udløses i den kreative proces. Shared value opstår når *samfundsværdi omdannes til økonomisk værdi*. Det sker ved at føre kreative produkter og tjenester til de rette modtagere.

Kulturelle og kreative industrier (KKI), kernen i konceptet, er blevet diskuteret, studeret og fremmet bredt inden for de seneste år. En lang række analyser viser at KKI har potentiale for at skabe vækst og velfærd ved at udnytte immaterialret. Adgang til finansiering for kulturelle og kreative virksomheder er derfor et højst relevant problem både for beslutningstagere og innovationssystemer. Denne kortlægning har til formål at levere relevant information om den nuværende finansielle situation i de nordiske lande, og konkludere på KreaNord's rolle som nordisk platform for at starte op fælles nordiske udviklingsaktiviteter på området.

KKI er *indholdsdræve* og *projektorienterede*, hvilket gør adgang til finansiering en *firmaspecifik udfordring*. KKI er dybt afhængige af talentfulde individer og teams, som medbringer en *hvis usikkerhed* i forhold til etablering og accept af det nye og usædvanlige. Kreative processer kombinerer kreativitet med andre professionelle ressourcer, og *udfordrer ledelsen* mere end i produktions- eller teknologiorienterede virksomheder. Det er industrier som drives af hit eller enkelte gennemslag. Evaluering og vurdering af immaterialret, risiko og andre karaktertræk fra de KKI repræsenterer en udfordring i forhold til finansiering.

KKI er ikke bedst tjent med modeller for industriel udvikling som inkluderer store investeringer, lang amortiseringstid og (materiel) sikkerhedsstillelse. Egenkapitalsfinansiering med risikovillig kapital passer ofte godt til teknologidrevne højvækstvirksomheder med store negative cash flow før omsætning og overskud. I mange tilfælde er de bedste instrumenter for KKIs indholdsdræve aktiviteter *projektfinansiering*, hvilket allerede er normen i mange kreative sektorer. Projektfinansiering

løber en risiko i forhold til projektenhed, processer og immaterielle aktiver. Den ydes generelt som *gæld eller via gældsrelaterede instrumenter*.

De nordiske lande er kendt for velfærdssamfundet, omfattende offentlig finansiering og støtte til virksomheder, store investeringer i R&D (forskning og udvikling) samt mange forskellige former for støtte og tilskud til kultur. Særlige nationale finansieringsinstitutioner yder en bred vifte af skræddersyede *kapitalandele, lån og garantier* til enhver støtteberettiget virksomhed. Det offentlige bidrag til udviklingen af industrien for risikovillig kapital har været afgørende. Statslig finansiering gennem industrispecifikke og regionale risikovillige kapitalfonde er nu indført, hvor den private aktivitet er faldet.

Offentlig finansiering fokuserer på iværksætteri og udvikling, men ignorerer stadig intellektuel ejendomsret som en kategori for aktiver og en kilde til velfærd. Imidlertid har nordiske innovationsselskaber og nogle finansieringsinstitutioner igangsat et arbejde for at genfinde disse typer af innovation og designet eksperimentelle pilotprogrammer til formålet. I nye R&I (forskning og innovation) strategier tager man både hensyn til shared value creation og KKI. Pilotprogrammer i dag fokuserer for eksempel på konceptskabelse og tilpasning af oplevelsesøkonomi, turisme samt sundhed- og velfærdstjenester.

Privat finansiering dækker alt fra filantropi to risikovillig kapital. KKI danner traditionelt den største kilde til finansiering for virksomheder og processer for indhold og udvikling af social værdi. Tilbuddet og deltagelsen er ikke institutionaliseret men baseret på industrinetværk.

Finansielle institutioner som leder efter aktionærværdi er koncentreret i mainstream virksomheder med erhvervskunder. Finansierings efterspørgsel, investeringsforslag og vurderingsmetoder der relaterer til indhold, den kreative proces og immaterialret er uvant og udgør derfor ikke motiverende forretningspotentiale for finansielle institutioner.

Den nuværende finansieringssituation for KKI kan opsummeres som følgende:

- Det finansielle miljø kan facilitere adgang til finansiering for KKI på samme hvis som for enhver anden virksomhed eller iværksætter. Det indebærer virksomhedsstøtte, egenkapital, gæld og garantier.
- Den projektf finansiering som efterspørges af KKI udbydes sjældent eller eksisterer slet ikke. Projektf finansiering, hvis det udbydes, kan for det meste kun ydes som gæld eller kan tilpasses andre typer af instrumenter afhængig af en risiko-belønningsfilosofi.

EU-kommissionen har udformet den nuværende europæiske situation og fremtidige udfordringer baseret på samme type af analyser og observationer. Nye rammeprogrammer for KKI, Creative Europe 2014–2020, inkluderer også en ny Finansieringsfacilitet der ”imødekommer efterspørgslen på finansiering, hvilket ikke kan løses gennem tilskud og ved at fremme et skift fra en støttementalitet til lån”. Finansiering i form af gæld for KKI og projekter vil blive kanaliseret gennem finansielle mellemled. Derved sørger Finansieringsfaciliteten for at opnå en systematisk effekt ved at øge antallet af finansielle institutioner med ekspertise inden for evaluering og vurdering af KKI.

Den nylancerede EU Risk-Sharing Financial Facility (RSFF) synes at fokusere på R&I og vækst, udover R&D. Faciliteten vil yde *lånefinansiering* til R&I-enheder i alle størrelser og former for ejerskab, som i princippet kan tilbagebetale lånet. Dette er tæt forbundet med selve karakteren i den innovation som stemmer fra den kreative økonomiske proces.

- Denne rapport konkluderer at markedssvigt ligger til grund for det lave udbud af gældsinstrumenter til den kreative økonomi og for virksomheder, projekter og processer i KKI.
- Det anbefales at KreaNord tager initiativ til at udarbejde en udviklingsproces og et koncept til en nordisk kreative økonomi gældsfinansieringsfacilitet, og inviterer Nordic Innovation, innovationsselskaber samt finansieringsinstitutioner til at konsultere i processen og implementeringen.



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Mapping of Nordic Creative and Cultural Industries: Financial Environment

The creative and cultural industries (CCIs) have recently been debated widely, and access to finance has been at the forefront. This KreaNord report, created in 2012, maps the Nordic CCIs' financial environment, and shows that the environment is facilitating the same access to corporate finance for CCIs as for other sectors. However, the supply of project finance requested by CCIs, is rare/non-existing, and mostly provided as debt. This report concludes the findings as market failure in supply of debt instruments for CCIs, and recommends a development process be initiated.

Republished in 2015 following the end of KreaNord, the Nordic Council of Ministers' initiative on cultural and creative industries (2008–2015).

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