



**Unit 2:
Entrepreneurial
Practice – Modelling a
CCI enterprise**

Theme: 2.6

**Financing.
Opportunities and
Risks**

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The training contents at a glance:

FENICE Program

Unit 1: Management and Entrepreneurship in CCI

Theme 1.1. Understanding CCI. Cross-Sectoral Collaborations.

Theme 1.2. Creativity and Innovation. Accountability and Ethical Behavior

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Unit 2: Entrepreneurial Practice – Modelling a CCI Enterprise

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Theme 2.3: Market, Competition, Consumption and Branding in CCI

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1 THEME Overview

The financial provision of an enterprise is a main element of its business plan. This theme will cover the basic elements of planning and managing finance within an enterprise. We begin with introducing the general profile and value-generation model in the CCS in order to outline the sources of funding for the CCIs. Then we move to discussing the resources generated within the enterprises via the *sale of goods and services*. The way these goods and services are priced is central, however it is necessary to consider the specific *dichotomy between value and price* in the CCIs. On this ground, the fund generation forms that are specific for the CCIs shall be regarded along the main dichotomy of (i) public/governmental funding and (ii) private funding within and beyond philanthropy, including the novel models associated with crowd-sourcing, multi-donor supports, project-based activities and so on. The theme regards the different types of financing instruments regarding the development stage of an enterprises as well as the risks and opportunities that accompany them. Finally, the issue of financial health and growth opportunities in the abruptly changed macroeconomic environment nowadays is considered.

2 THEME Reader

I. Specifics of the CCIs regarding economic value and value generation

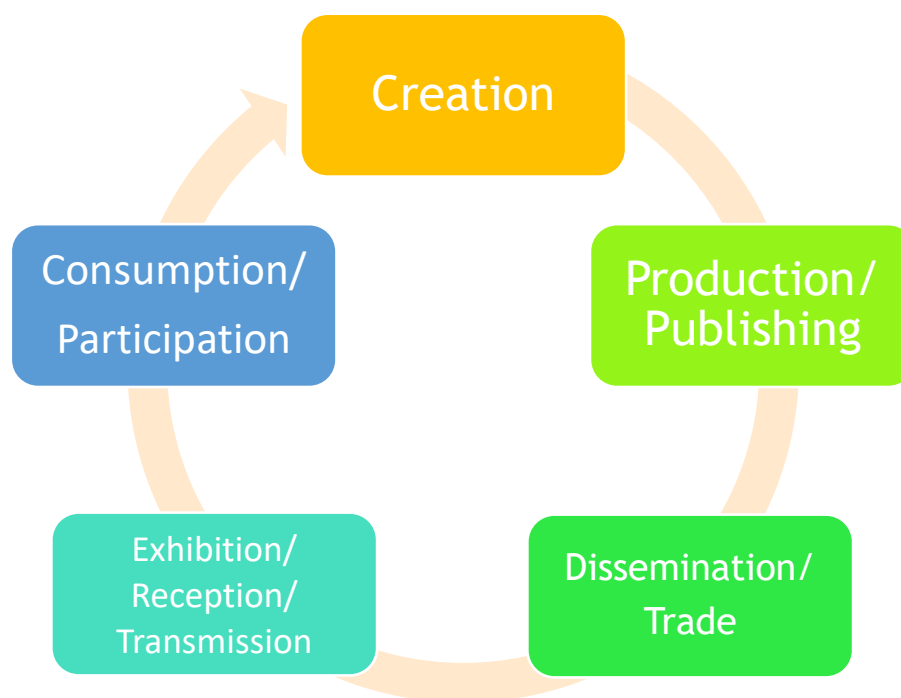
The cultural and creative industries (CCIs) generated 4,4% of the average GDP of the EU (reaching 7% for some Member States) and provided employment or self-employment to more than 7.6 million persons and between 2 to 4% of the workforce, the majority of whom are young people (Imperiale, Fasiello, & Adamo, 2021; European Investment Fund, 2019). The vast majority of the cultural and creative sectors in Europe – 95% as of 2019 – consists of small enterprises, independent artists and freelancers. Thus, the CCI enterprises represent 12,1% of the average number of companies across the Member States (European Investment Fund, 2019) .

The CCIs in the EU were marked by the following specifics on the brink of 2020 and the COVID-19 pandemic:

- ✚ The audio-visual and multimedia-related sub-sectors were the growth drivers (in particular film, DVD and video, radio and TV broadcasting, computer/video games and computer programming activities). These sub-sectors have sustained and even increased their value during the pandemic (European Investment Fund, 2019).
- ✚ In terms of economic performance and significance, the CCS were comparable to the sectors of Information and Communications Technology (ICT) and Accommodation and Food Services (A&F). In addition, the CCIs are valorised in cultural, heritage and experiential tourism and use digital services in the production of content for films, videos, games, 3D-mapping, etc. (European Investment Fund, 2019);

- ✚ Survival rates of CCI enterprises after 1, 3 and 5 years of existence are similar to that of the enterprises in the ICT and A&F being even higher for the 3- and 5-year term than the ones in A&F (European Investment Fund, 2019);
- ✚ The CCI enterprises had 2,7 employees on the average before 2019, versus 5,73 in the ICT and 5,86 in the A&F (European Investment Fund, 2019).
- ✚ The micro-scale of the enterprises has formed a niche for ad-hoc cooperation and clustering that allows the CCIs to switch promptly across the sub-sectors and form quickly task-based teams that dissolve and reform after the completion of a project;
- ✚ The segmented structure of the enterprises has created a niche for the establishment of creative hubs (European Investment Fund, 2019) that have moved from the on-site to the on-line environment during the pandemic;
- ✚ The new and development of trends in the CCIs depend on the marked rise of digitalisation particularly regarding the experimentation with new digital services as a remedy and adaptation to the anti-pandemic social-distance restrictions – such as live on-line concerts and performances, edu-games, virtual exhibitions, etc.

Generally, the goods and services in the cultural and creative sectors (CCS) and CCIs are delivered according to the following value-chain model:



Source: (United Nations Educational Scientific and Cultural Organisation, 2009)

It is not necessary that all elements (activities) in the model are present in each individual enterprise – they can be divided among different firms, within a geographical location or spread over different areas, and the financial structure is also very much dependent of this specifics. Rather there is an interconnectedness among the phases (United Nations Educational Scientific and Cultural Organisation, 2009). For example, in music we have creation, dissemination and consumption in live concerts as one type of delivery chain, but also creation, production and dissemination when the product are music records. In visual arts

we have may have all stages, while in video-games and on-line products – creation, production, dissemination and participation.

II. Value-creation cycle and relations to other industries (cross-sectoral monetization)

As indicated, CCS are a full-right sector of the economy with a lot of development potential – despite the downturn caused by the pandemic. The deliverables of the CCS and CCIs are interdisciplinary and integrate elements from different sub-sectors e.g. music in films and video-games, 3D-mapping in stage performances, video-simulations in regional planning and architecture, etc. The value of the integrated product is most often higher than the value of the elements.

CCIs embrace urbanization, tolerance and well-educated people, which have been identified by different scholars as key factors for entrepreneurial growth. There is huge potential of CCIs associated with interdisciplinarity, digital orientation, innovation and entrepreneurial mindset affected by internationalization (Gerlitz & Prause, 2021). Research shows that the innovation-driving effect is higher in regions and communities that are more diversified – in terms of sectors of the economy, occupations, etc.

In broader terms, CCS and CCIs belong to the experience economy where the goods and services are associated with the effect they can have on people's lives and where experiences become the ultimate supply. Networking, communication and sharing play a central role in the delivery and consumption of the goods and services but also in the models for funding e.g. via crowd-funding, crowd-sourcing, shared use of streaming and media services, etc.

CCIs are linked to tourism in a straightforward way. However, the relation goes beyond cultural tourism and develops in the new forms of creating experiences for visitors via participatory activities. The preservation and interpretation of the cultural and historic heritage also falls in CCIs domain. Further, the connections refer to urban planning and spatial regeneration of areas in cities and towns, even villages. During the pandemic period, the products of the CCIs became an intrinsic part of education and provision of services as all internet platforms and applications have been using them.

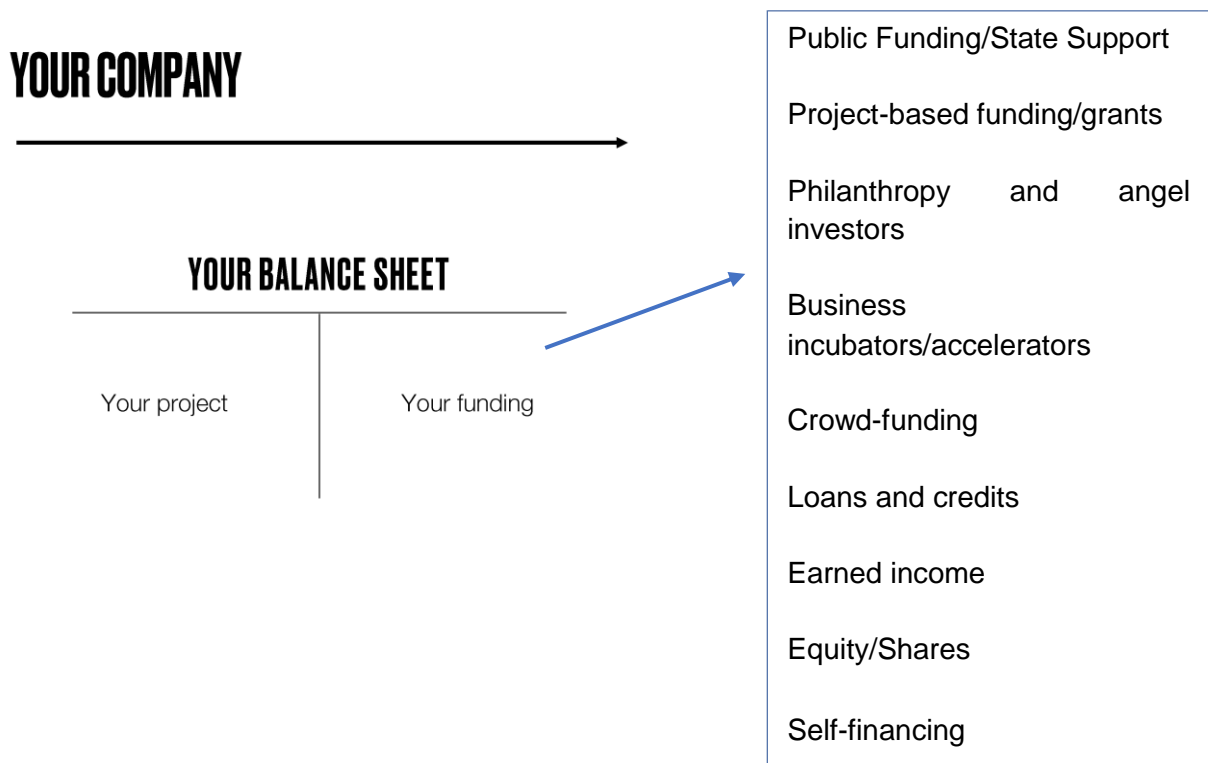
III. Sources of funding

As indirectly mentioned so far, the CCI enterprises¹ are of *two main types – non-for-profit (museums, libraries, theatres, non-governmental organisations uniting individual artists, etc.) and for-profit (designer studios, ICT-companies, individual/freelance artists as sole*

¹ An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity (European Commission).

proprietors, etc.). Switching between the two types is also possible as since we already have private museums and theatre companies emerging in many European countries and the boundaries between non-profit and for-profit entities are blurred.

The CCI enterprises rely on intangible assets and work in high uncertainty of market demand, therefore they usually rely on a combination of funding sources and the funds used depend not only on the subsector but also on the organisational form of the enterprise:



Source: (European Investment Fund, 2019)

The specifics of the CCS define the frame for funding a CCI-venture – it has specifics even though the process is similar to that in the other industries.

🚦 Targeted public funding (direct state support)

Within the EU, many large cultural institutions are public and supported within the state budget usually under the domains of the ministries responsible for culture, heritage, tourism, regional and local authorities. The budget for culture is a share of each country's GDP and ranges about 2% across Europe according to EUROSTAT. For many countries and particularly for the ones represented in FENICE project the funding of the public cultural sector is considered insufficient and usually reaching out to cover only the remunerations of the institutions' staff.

The economic downturn caused by the financial crisis in 2008 and now by the pandemic has been associated with limitations on public funding for culture and with state support lagging behind the severe obstacles caused by the lockdowns. The publicly-funded arts and cultural

institutions are considered non-for-profit (raising income to pursue their social goal and to pay their staff) but they have been put in the position to start behaving as business entities (generating profit to compensate for the decreasing state aid) in order to recover from the crises and sustain their value for the communities.

Project-based funding

Unlike the direct state support, the project-based funding is open to all CCI enterprises – private and public, profit and non-for-profit. The project-based funding targets the launch and implementation of usually ad hoc activities with a specific theme or focus – such as the production of a movie, play, festival, performance, etc.

The EU has opened many programs for funding projects in the field of the CCI. Besides the flagship initiative “Creative Europe”, many other EU-programmes include in their priorities support for the culture, heritage and the cultural and creative industries. A detailed description on the opportunities can be found in the *“The CulturEU Funding Guide: EU Funding Opportunities for the Cultural and Creative Sectors 2021-2027”*, issued by the European Commission.

The most important feature of the project application forms on the basis of which this type of funding is granted is that they are per se business plans. They need to describe in detail the cultural product, its value for the community and society as a public good and justify the utilization of the budget that needs to be invested in the delivery of the product.

A draw-back of the project-based funding is that it depends on the priorities set by the financing institutions and the artists and/or culture creators must adapt their ideas to these priorities in order to qualify for support.

Projects are funded by with public funds (such as the EU programs) or by private organizations, usually by large business groups in the frame of their corporate social responsibility policies.

Philanthropy and angel investors (corporate support)

Because of their social value, CCI also attract support from private companies and individuals who are seeking to donate part of their earned income or resources to social causes. Corporate philanthropy and corporate social responsibility are basically one and the same thing. Here funding can come after filing an application to a fund created by a company/corporation or as a direct sponsorship/donation of funds for a cultural project or product on a temporary basis.

Angel investors or business angles are another personification of philanthropy. These are companies and individuals who invest at the start-up or early stage of a venture in return for a share of the business or just as a donation for causes they are passionate about. They are very important for the creative industries as the name “angel” was first used to describe the affluent persons who supported the productions of the Broadway Theatre in the twentieth century. Angel investors like particularly the ICT-based companies but not so much the rest of the CCIs. The business-angle networks in Europe include the European Trade Association for

Business Angels, Seed Funds and Early Stage Market Players (EBAN), Business Angels Europe and other.

Business incubators/accelerators

Business incubators and accelerators provide a supportive environment for start-up business based on packages which include office and exhibition premises, mentoring, business, marketing and financial services at below-market prices. In the business incubators the payments are fee-based, while the accelerators acquire equities/shares of the supported companies. This means funding does not come in the form of direct money transfers. Business incubators and accelerators are very suitable for the CCI companies working with digital content, design, audio- and video-products.

Working in networks and clusters is specific for the CCIs. Many cities develop target physical areas where the CCIs are concentrated – like arts and crafts quarters, museum quarters, residence venues and so on. At the same time, many national and community programs support the establishment of creative hubs whose mission is to provide space (physical or virtual) and support for networking, business development and community engagement within the creative, cultural and tech sectors.” (Culture and Creativity Association, 2022). For the time being the creative clusters and hubs do not provide the same package of services as the business incubators and accelerators. Rather they are an alternative for those types of creative business and individual ventures who cannot easily become financially viable without public support.

Crowd-funding

Crowdfunding is a new model of funding a venture or project by gathering small amounts of money from a large number of people, usually via the Internet. Here the collective efforts of friends, family members, customers and stray supporters of an idea create a network that allow this idea to materialize (European Investment Fund, 2019). The social media and crowdfunding platforms are the main channel for implementation – such as WhyDonate, FundedByMe, FundingCircle, Ulule in Europe. The individual investor can merely donate to a project or a cause launched in a crowdfunding platform, but they can also receive small interest (the so called peer-to-peer lending), share for the business (equity) or rewards (non – financial returns in the form of a unique service or pre-selling version of a product).

Aside from fundraising, crowd-funding is a community-building tool and is very well suited for the needs of the CCIs.

Loans/Credits

This is the traditional form for funding a features and it usually the capital comes from one particular institution – a bank or a similar non-banking institution, also a fellow company is an option. This sources can be used equally by cultural institutions and non-profit agents and for-profit enterprises equally. Depending on the viability of the business and the economic environment, paying back the loan and associated interest may become a problem – as has been ta case during the pandemic since 2020 and associated lockdowns.

Usually the CCI enterprises access loans with difficulty – especially when the essence of their business is associated with non-tangible assets which are more difficult to monetize. To this end the European Commission established the Cultural and Creative Sectors Guarantee Facility (CCS GF) associated with a network of banks that provide credits in particular to the SMEs from these sectors. Some similar guarantee schemes exist in individual countries but still they are few.

Earned income

This source refers to the revenues the CCIs get from selling their products (e.g. via entrance tickets, licenses for use, copyright fees, sale of works of arts, etc.). The volumes and share of this source vary across the different sub-sectors – as mentioned the ICT-products are generating high earnings easily in the last years, compared to the libraries that have to keep their fees low in order to remain accessible and fulfil their social mission as places for cultural gatherings.

Still some of the cultural institutions can generate additional earnings by renting their premises or equipment for the organization of different types of events – even not cultural ones.

Equity

Some art companies are owned by a number of shareholders, who also provide the capital (or the initial funding) of the enterprise. In this case, the financing is ensured through equities (or shares) that could be sold or transferred against payment. The shareholder has a portion of the enterprise. He/she bears the risks and profits from the growth of the company. Still equity-based enterprises are not common in the CCIs.

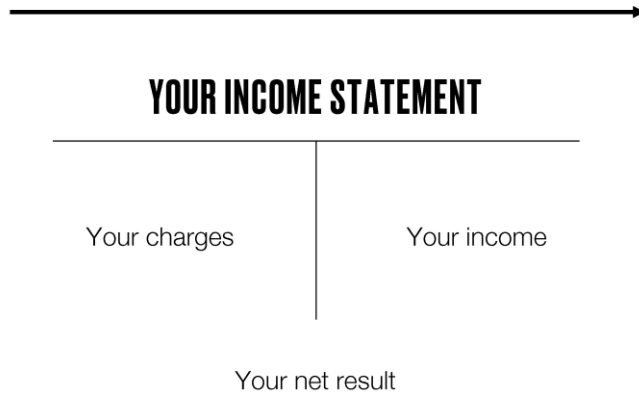
Self-financing

Very often freelance artists and micro-enterprise founders use their personal saving as a start-up capital to launch venture and project.

IV. Budgeting and pricing

The budgeting concept is simple – first, the expected revenue from sales or financing for a given period should be described and then the expenses for that same time-period should be calculated. The sum of the expenses will then be deducted from the income amount of income, whereas the result will show the profit or loss to be generated by the enterprise.

Another way to visualize the process is through the *Income statement*



Source: (European Investment Fund, 2019)

The income statement tells how much money an enterprise generated (income) and spent (charges) over a certain period of time – usually a month or a year. The net result is a profit or loss and shows how well the enterprise managed to deliver and sell its product on the market.

Though often stated that the financial processes are identical in the business and non-profit organisations, there are essentially a number of differences. Traditionally, most writers explain the differences between the business and non-for-profit organisations by focusing on the topic of the mission. Generally, the central objective in business is to bring profit to the owners/shareholders, i.e. the mission of the enterprise is to increase the financial resources. By contrast, the non-for-profit organisations are based on the idea to help in the resolving of social, educational, natural and other issues, i.e. offer services for the benefit of society and its improvement. Therefore, the mission of non-for-profit organisations is to create a product or service for the profit of society, and not economic profit. Sometimes this is associated with offering of goods and services at low cost or free of charge. The two types of organisations respectively differ in their financing resources: business organisations are generally financed by means of the investors' capital, the sale of products/services and loans, while the non-for-profit ones raise the resources necessary from government grants and funds, fees (e.g. concerts and museums entry fees, etc.) and private donations. Business organisations pay for all external expert services, such as accounting, legal consultancy, advertising, while in many cases the non-for-profit ones receive these services without having to pay for them, or at much lower prices.

The following three types of expenses (charges) can be identified in the context of a creative or cultural SME, micro-enterprise or a non-for-profit organisation:

- costs specific to inputs: equipment, materials used in pre-production, hiring charges, delivery and time;
- general costs incurred by a business, e.g. overheads – such social security payments, accounting services, premise-related expenses, Internet and communication fees, and so on;
- costs specific to human resources.

The sum of input costs, overheads and human resources on a time basis gives the minimum cost that has to be covered in order for the enterprise to exist.

The break-even point is where income is equal to charges. The break-even point is important, as it constitutes the dividing critical point between profit and loss. The prices of the enterprise's product or service should be calculated in such a way so that the break-even point is equal or larger than zero.

In a simplistic way, for the delivery of a theatrical performance or a concert, the calculation of the break-even point is looks as follows:

$$(A \times P) + I - C \geq 0$$

A = those attending who buy tickets (in other words, the number of tickets sold)

P = average ticket price

A x P = ticket sales income

I = other income besides ticket sales (e.g. grants, donations for the performance, state support etc.)

C = charges or expenditure

The applying the above formula could be visualized through the following example:

A concert has to be organised, with a certain number of performers and costs calculated at the total amount of 10000 EUR, including the rent of a hall of 250 seats. A donation by a private person was received, amounting to 1000 EUR. After a research was made, the ticket price was fixed at 20 EUR. By using the break-even point formula, a calculation has to be made of how many people should buy tickets, so that a balance is achieved between income and costs.

$$(A \times 20 \text{ EUR}) + 1000 \text{ EUR} - 10000 \text{ EUR} = 0 \text{ EUR}$$

$$(A \times 20 \text{ EUR}) = 10000 \text{ EUR} - 1000 \text{ EUR}$$

$$A \times 20 \text{ EUR} = 9000 \text{ EUR}$$

$$A = 450$$

Hence, at least 450 people have to buy tickets in order that the break-even point is reached, which indicates that more than 1 performance is necessary to break even. This position can be presented as a budget table:

Seating capacity of the concert hall	250
Ticket price	20 EUR
Number of ticket sales needed to break even	450
Break-even attendance as % of the hall's seating capacity	180 %
Income	

Tickets sold	9000 EUR
Grant	1000 EUR
Total income	10000 EUR
Less costs	
Production costs	10000 EUR
Total costs	10000 EUR
Profit/Loss	0 EUR

V. Financial sustainability

Financial sustainability is achieved when an enterprise is selling a product or service at a price that not only covers the expenses but also generates a profit. The profits allow the enterprise to enlarge particularly when part of it invested back into larger productions, better facilities, more performers and co-creators and so on.

In other words, we talk about sustainability when the break-even point is larger than zero.

In the non-for-profit entities, the interpretation “profit” is a little different. The surplus which remains as the end of a project or a period is reinvested back in total in order to allow the organisation to stay independent from external funding (donations, sponsorship, loans, etc.) and develop initiatives at its own discretion or free for the audience.

In reality, financial sustainability is not easy to achieve in such a dynamic sector as the CCIs. The prevailing small scale of the dominating number of enterprises also adds to their vulnerability in this regards. For many of the subsectors the prices of the offered cultural products need to be adjusted to general purchasing power of the audience in order to allow as much people as possible to consume and experience arts and culture. This the dichotomy between the prices and social functions in the CCI will always be present and refer to the financial sustainability of the sector.

VI. Opportunities and risks

The development prospects of the CCS and CCIs before 2019 and the pandemic looked more than promising in Europe. The economic statistics gave out the following factsheet:

- The economic contribution of the CCIs at the time was higher than that of telecommunications, high technology, pharmaceuticals and automotive industry;
- Between 2013 and 2019 the CCIs added approximately 700,000 jobs (equivalent to a 10-% increase) including for authors, performers and other creative workers;
- All CCIs sectors grew over a 6-year period with up to 4% - with video-games, advertising, architecture and music being the leaders and only press was at downturn; The strongest growth was experienced in Eastern and Central Europe;

- The demand for on-line content was high as over 80% of internet users in the EU used the Internet for music, videos and games (and not so much for shopping or social networking);
- The innovative potential of the CCIs was extremely high;
- It is common of the CCI enterprises to perform market/for-profit and non-market/socially benevolent activities at the same time and this is related to the access of public funds that they might have;
- The CCI market is highly fragmented market and depends on the culture and languages of different peoples and generations.

Source: (EY Consulting, 2021) (European Investment Fund, 2019) (European Investment Fund, 2019)

Still the promising prospects were ruined after 2020 and the CCIs are estimated to have lost over 31% of their revenues (EY Consulting, 2021) due to the following traits of the CCIs:

- Predominance of the SME and micro-enterprises, including self-employment;
- The fast-runners in central and Eastern Europe were hit and lost most;
- Halting of social life and social distancing measures lead to increased consumption of digital content by decreased consumption of paid digital content (IDEA Consult, Goethe-Institut, Amann, & Heinsius, 2021);
- The fragmented structure of the sector, freelance mode of employment, difficult access to commercial financing made the CCIs extremely susceptible to the economic crisis caused by the pandemic (IDEA Consult, Goethe-Institut, Amann, & Heinsius, 2021);
- Increase in on-line subscriptions was accompanied by a decrease in on-line advertising;
- Lack of uniform statistics and qualitative analyses for the development of the sector across the EU Member States, which makes business planning difficult (European Investment Fund, 2019)

The possible ways for recovery refer to:

- More targeted public support for the sector – at national and regional, beside EU-level;
- New collaborations between the CCIs – such as the ones allowing live on-line performances during the lockdowns, hybrid on-site and on-line events, and so on;
- Better utilization of the cross-sectoral collaborations of the CCIs with other sectors of the economy – with health and education in particular;
- Upgrading and revising the revenue-models and utilizing alternative spaces for doing business – digitally or in large public areas, including in the open air
- Monetization of digital content (in the most popular forms of “selling content” and “selling audiences”) and evolvement of the copyright protection;
- Reestablishment of the role of the CCIs in contributing to the well-being of citizens, social innovation and social cohesion;
- Introduction of new models of copyright protection - globally copyrights were created as a concept before Internet came into existence and are being adapted with the new development trends of technologies; The EU aims to create a single digital market and adopted the Directive (EU) 2019/790 with the aim to adapt copyright exceptions/limitations to the digital and cross-border environment, improve the licensing practices to ensure wider access to creative content and achieve a well-functioning market for copyright;

- Science, technologies and art are considered as belonging together and the interdisciplinarity is promoted by via public support and in business.

The list can be enlarged by any stakeholder in the CCIs. Here are some support and policy-making instruments to consider:

- 🚩 Creative Europe Programme of the European Commission - <https://ec.europa.eu/culture/creative-europe>
- 🚩 STARTS = S+T+Arts (Science, Technology and the Arts), an initiative of the European Commission, launched under the Horizon 2020 research and innovation programme to support collaborations between artists, scientists, engineers and researchers - <https://starts.eu/>
- 🚩 EU network of creative hubs - <http://creativehubs.net/>

VII. Suggested readings:

The CulturEU Funding Guide: EU Funding Opportunities for the Cultural and Creative Sectors 2021-2027 (2021), European Commission

Rebuilding Europe – The Cultural and Creative Economy Before and After the COVID-19 Crisis (2021), EY Consulting, European Grouping of Societies of Authors and Composers (GESAC)

Be Creative - Call the Bank: Cultural and Creative Sectors Guarantee Facility (2019), European Investment Fund

Capacity-building in the Cultural and Creative Sectors Guarantee Facility: A guide to assessing loan applications from CCS SMEs (2019), European Investment Fund

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4 Acknowledgements

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