Local Incentives Stimulating Film And Audiovisual Production In European Cities And Regions

Selected Case Studies

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Case Study Report for Filmproducenten Nederland

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1. Introduction

The Filmproducenten Nederland (FPN) are currently supporting the attempt to introduce an economic incentive for the film and audiovisual industry in The Netherlands. Besides this Film producers Netherlands is encouraging setting up local economical incentives which support the creative and film-audiovisual industry. National and local or regional economical support systems for the Creative Industry will only strengthen each other and can give an extra impulse for the cities and regions. This not only entails the research of existing national examples for attracting production to certain territories as it was conducted by peacefulfish’s „Study On Dutch Film Industry And Inward Film Investment” ,January 2012, for the Nederlands Filmfonds1. It also means to analyse local incentives in European cities in order to maximise the desired economic and industry effects.

This Case Study Report identifies three incentive models in three different European cities and regions, and offers an overview of their structures, designs and their performances in stimulating film and audiovisual production, in attracting co-productions and in stimulating the local economy of the city. The following key information is provided according to the client’s briefing:

- The budget of the incentive,
- The way it works (rebate or tax relief or?),
- The type of projects which are supported,
- The financial and economical return for the city.

The success of national and regional/local incentive systems in European film production territories is undisputed. One of the best documented and well established film funds is the German Federal Film Fund (DFFF), clearly showing how the support by a national fund can stimulate an economy.

Since it was established in 2007, the DFFF supported 642 film productions with a total of 356 million EUR. In these six years 407 German and 235 international co-productions were supported. The grants of the DFFF resulted in production costs of about 2.9 billion EUR. Of this the involved film production companies triggered expenses in the amount of 2.1 billion EUR in Germany alone.

In 2012, the support of the DFFF resulted in follow-up investment of 352 million EUR in the German film industry, exceeding the numbers of the years before. Again, German and international producers invested about six times the amount of the public grants they received in Germany alone.

The following table shows a slight increase in triggered German production costs from 2010-2012 which translates into a stable ratio of 1:6 (1€ invested in a film production results in 6€ spent in Germany).

### The DFFF leverage effect

1 EUR as a grant triggers German production costs in the amount of ...

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
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<tbody>
<tr>
<td>All projects</td>
<td>6,00 EUR</td>
<td>5,85 EUR</td>
<td>6,03 EUR</td>
</tr>
<tr>
<td>International co-productions</td>
<td>5,80 EUR</td>
<td>5,72 EUR</td>
<td>5,91 EUR</td>
</tr>
<tr>
<td>German productions</td>
<td>6,10 EUR</td>
<td>5,92 EUR</td>
<td>6,10 EUR</td>
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Source: FFA

Receiving DFFF support not only directly impacts on German producers’ ability to close their budgets it also fosters their participation in international co-productions and strengthens their rights and revenues in the exploitation of their films.

This Case Study Report includes examples of 3 cities:

- **Berlin** (Germany),
- **Bergen** (Norway),
- **Riga** (Latvia).

These case studies present a variety of fund models from those operating solely on public funding (Riga Film Fund), via a public-private partnership (VC Fond Kreativwirtschaft) to a fund in which private equity prevails (Fuzz Fund). Also the tools used to create financial leverage effects for local economy vary from direct investments to cash rebates and additionally, include a wide range of business consultancy.

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2. VC Fonds Kreativwirtschaft Berlin

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**Profile:**

VC Fonds Kreativwirtschaft Berlin is a **public-private partnership** of Investitionsbank Berlin (IBB) and the State of Berlin, with 50% backing from EU European Regional Development Fund (ERDF), a programme approved by the EC in 2007 to promote business competitiveness, start-ups with the intention of creating jobs.

The fund (for both the Creative Industry and technology investment arms) was founded in 1997 as a 100% subsidiary of Investitionsbank Berlin to support Berlin-based small and medium-sized enterprises. VC Fonds Kreativwirtschaft was established in 2008 to help Berlin creative firms increase their equity and grow as well as to help support overall regional development of the creative industries in the city and state of Berlin.

The Fund collaborates with active Angels Investors and VCs active in software, digital and web related innovation, with incubators, clusters and follows their activities and their companies.

**CI sub-sector focus:**
- Movies, Broadcasting, Television
- Publishers
- Music, Entertainment
- Advertising
- Fashion, Design, Architecture
- Multimedia, Games, Software
- Arts and Cultural Affairs

**Additional service:**
- Setting up the corporate structure
- Human resources issues
- Developing and implementing sales and marketing concepts
- Implementing controlling and reporting systems
- Budget planning and analysis
- Preparing and conducting further rounds of financing
- Acquiring new investors
- Strategic planning
- Turnaround management
Budget: 
30 million EUR total for the investment period.

Form of investment: 
Equity, mezzanine (silent partnerships, shareholder loans) funds. Investment limited to 1.5 million EUR per company (1st round); Total limit of 3 million EUR per company.

Investment period: 
2008-2013, with a probable extension through 2015. Thereafter renewal periods to be negotiated.

Exit strategy: 
Trade Sale 99% preferred. So far VC Fonds didn’t exit any of their investments yet.

Targeted investment stage: 
Early stage and onward.

Match financing: 
MATCH-INVESTMENT is required from a private and independent co-investor, e.g. another venture capital firm, an angel investor or industry partner, who contributes at least the same amount as the fund.

Area covered: 
State and city of Berlin

Number of investments per sub-sector (from the beginning of the programme): 
Total number of companies: 27
The graph above presents the percentage of sub-sector companies in which the VC Fonds Kreativwirtschaft invested. 41% of the investment went into companies of the software sector, making it the dominant investment target, followed by 18% of the investments made in fashion companies and by 11% each in film/television as well as in music companies.

**Size of investment per sub-sector:**
The graph below presents the percentages of total investment in EUR per sub-sector in 2012 and shows a quite different picture. The highest amounts of the VC Fund are actually invested in the film and television sector (26%) followed by fashion and design (25%) and games and software development (24%) ranking third.

This shows clearly that fewer film and television companies received higher investments and that more game and software development companies received lower amounts, resulting in a balanced investment portfolio.

Source: VC Fonds Kreativwirtschaft
The result of the fund:

As its investment period has not yet ended (3-7 years) results are not completely possible to identify.

Often the fund was also able to help companies attract the necessary match investment, thereby actively encouraging equity investment in Berlin’s SME. As of June 2011, VC Fonds has provided a total of 10.2 million EUR to Berlin CI, with private investors contributing 27.8 million EUR.

Among the successful investments have been internet radio broadcaster AUPEO!, which was founded in 2008 and works in partnership now with Philips, ASUS, Acer and others. VC Fonds invested in 2009 and increased its position again in 2010.

Moviefiplay (a film recommendation community) received investment in 2009, and a second round in 2010/2011, and reaches a community of 2.5 million web users, 2 million IPTV customers in Germany as well as 4 million Facebook fans worldwide. In May 2012, Moviefiplay received a round of international venture capital of $7m (€5.3m) for its expansion into the United States.

According to Marco Zeller, director of IBB, the 2011 investments rose 40% compared to the previous year, and the number of transactions rose 5.0%. In connection with the VC investment, 3rd party investment totalled 45 million EUR additionally. Ulrich Kissing chairman of the IBB board stated that because of the growth in investment, Berlin has become a magnet for SME founders in ICT and media. Also international investors are showing an increased interest in Berlin as a location.
The Investitionsbank Berlin operates also a tailored coaching programme, **Coaching BONUS**, which is an additional important and utterly successful tool to support the CI.

### 2.1. Coaching BONUS

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<td>Address:</td>
<td>IBB Business Team GmbH, Bundesallee 210, 10719 Berlin</td>
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**Profile:**
The **Coaching BONUS** is a programme of Berlin’s Senate Department for Economy, Technology, and Research and is financed by the European Fund for Regional Development (EFRE) and the State of Berlin. The IBB Business Team GmbH, a full subsidiary of the Investitionsbank Berlin (IBB), the regional development bank, is the lead partner of the programme.
The programme exists since more than 15 years (previously known as TCC and KCC Coaching) and supports entrepreneurs and existing companies also in the Creative Industries with offices in Berlin through project oriented grants for defined coaching purposes. The entrepreneurs and companies receive practical advice by a coach who shares his/her professional expertise and industry insight to offer sector know-how where needed and to be a sparring partner for the management. This help for “self-help” is available in the concept and start-up phases as well as in later growth periods or re-structuring processes especially for managerial and organisational considerations.

**Typical objectives for the coaching are:**
- Optimising of the business plan
- Identifying the financing need
- Strategies for growth
- Developing a marketing- and distribution strategy
- Introduction of a controlling system
- Optimising the organisational structure
- Internationalisation of the company

The programme fully subsidises the net fee of the coaches for the first two consultant days (16 hours). With the third consultant day the entrepreneurs pay 25 % of the coaches’ net fee plus VAT of the total remuneration. Companies which are in business longer than 3 years cover 40 % of the coaches’ fee. The Coaching Bonus then reimburses the entrepreneur or the company within few days.

Additionally to the Coaching BONUS the IBB offers a variety of seminars and workshop-programmes like in the areas of business administration, marketing and soft skills.
Summary of VC Fonds Kreativwirtschaft and Coaching Bonus, Berlin:

- 30 million EUR total for the investment period.
- Public-private fund with EU backing provides loans and equity to wide range of CIs in the Berlin area (top investments being digital content, fashion, software/comp services).
- Works with early stage companies onward. Company investment based on potential rather than actual earnings.

- Matching investment from a private independent 3rd party is required.
- Specialises in providing a number of advisory services in addition to funding.
- Investment activities are accompanied by a tailored coaching programme to support CI entrepreneurs with business and management know-how in order to build sustainable businesses.
3. Film Fund Fuzz – The Film Fund on the West Coast of Scandinavia

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**Profile:**
Founded in 2006 by the city of Bergen, Fuzz is owned by the public, and funded by the public as well as by private investors. Fuzz can provide equity funding of up to 300 000 EUR for feature films, games, documentaries with theatrical distribution, and TV productions that are produced partly or entirely in Western Norway.

Fuzz is looking at projects with a two-fold interest:

1) to recoup their investment alongside other equity investors,
2) to strengthen the audiovisual sector in Western Norway.

Fuzz is currently providing top financing for six to ten feature length films and computer games per year.

**Budget for 2013:**
2.100.000 EUR

**Structure of the budget:**
600.000 EUR – public funding,
1.500.000 EUR – private equity.

The public funding is granted yearly and is prioritized for local producers with local productions and with low market potential. The private equity goes to production with local ties with high market potential.

The public funding for 2013 is already spent.

**Projects supported by the fund:**
Feature films, TV drama and computer games (projects) produced in part or wholly in Western Norway.

**Max / Average:**
Maximum investment is 300.000 EUR.
Average investment is 180.000 EUR.
**Investment period:**
From 0,5 to 2 years.

**Deadline:**
No specific application deadlines.

**Applicant:**
Norwegian production company.
Foreign producers must have a Norwegian co-producer in order to be eligible for investments from Fuzz.

**Area the fund covers:**
Counties of Hordaland, Sogn & Fjordane, Møre & Romsdal

Areas covered by the fund.

**Combinations:**
Combines with any other regional and national fund.

**Selection criteria:**
Commercial potential, recoupment position and regional effect.
**Investment criteria:**
100% of the investment should be spent on the regional audiovisual sector, based on postproduction or shoot.
For the public funding more spending in the regions is an additional criteria. For private equity the probability of high profits vs probability for loss is emphasized.

**Cultural requirements:**
There are no specific cultural requirements.

**Investment's form:**
The private equity is prioritised.
Fuzz will normally take a 1st position in the recoupment of the projects revenues, and will also own a share of the project corresponding to Fuzz´s share of the projects private equity, and own the project together with the main producer. Fuzz will give the main producer an option to buy Fuzz´s ownership after 5 years based on the remaining revenues to be expected from the project.

The public funding is of second priority. From some projects it’s repaid and reinvested in other projects.

**Projects already supported:**
Total number: 52

![Pie chart showing the distribution of supported projects]

Source: Film Fuzz Fund website: [http://fuzz.no/?p=715](http://fuzz.no/?p=715)

The majority of supported projects are feature films (63%). The rest of the fund is almost equally dived to support short films (12%), international co-productions (12%) and computer games (8%). Television dramas (3%) and documentaries (2%) are obviously no priority in the fund’s support strategy.
The allocation of public funding shows that most of the public money went into feature films (39%) followed by short films (19%) and international co-productions (19%). The public funding is mainly invested in children's movies (76%), as these are currently the top sellers in Norway.

Source: Film Fuzz Fund website: http://fuzz.no/?p=715
The allocation of the private equity part shows a clearly prioritised investment of feature films (84%) and a lot smaller investment appetite in computer games (10%) or in international co-productions (5%).

The results of the fund:
Since its creation the Film Fuzz Fund has supported 52 projects. The fund has invested in projects all over the west coast of Norway, however mostly in Bergen, which is the largest city in the region.

The fund has already invested 52.1 million NOK (6.6 million EUR) in the region: 27.8 million NOK (3.5 million EUR) of private equity and 24.3 million NOK (3.2 million EUR) of public funding.

The private equity invested in the projects yields 10-11% of profit each year. The total turnover of the audiovisual industry is estimated at a growth rate of 64% since the fund’s started operation.

Summary of Film Fund Fuzz, Bergen:
- With about 71.4% of Film Fund Fuzz’ budget being invested as equity and 28.6% being paid out as a grant, the Fund has a
4. Riga Film Fund
Riga City Council Co-Financing Programme

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Profile:
Riga Film Fund (RFF), launched in 2010, is a municipal fund of the Riga City Council for co-financing film projects shot in Riga by foreign film companies. It allocates co-financing through a call for tender.

There is no set budget for the Riga Film Fund; the funding approved according to the results of the tender as the required amount of the funding is determined by evaluating the applications of the winning tenders.

The Programme aims to promote foreign film productions in Riga, to create new jobs, attract investments to Riga, encourage development of the national film industry, and to promote Riga abroad.

Budget for 2013:
1.926.086 EUR

Structure of the budget:
100% state support.

Projects supported by the fund:
Foreign-national co-productions; feature films and TV films fiction or documentary.
The projects needs to have:
1) total budget of at least EUR 700,000,
2) half of the project’s funding confirmed,
3) foreign capital comprises at least 75% of the total budget,
4) For 2013: shooting is set to be finished in 2013 and an implementation report is to be delivered by the end of 30 November 2013 (last call ended in April 5, 2013).

Investment period:
One year.

Calls:
Two calls per calendar year. A third call for tender may be initiated if allocated funds are not entirely used after the second call.

Applicant:
Foreign production company needs to have a Latvian co-producer or a Latvian partner involved as production service provider, who submits the application to the fund.

Area the fund covers:
Main focus lies on Riga city. However, the Fund supports also projects shot in the whole country, provided Riga based film services are used.

Selection criteria:
Qualitative criteria:
1. Planned expenses in Latvia.
2. The investment in the development of the Latvian film industry, assessing
   a. the participation of the Latvian creative personnel in the film production,
   b. total number of Latvian residents employed,
c. as well as the endorsement of the Latvian filmmaking industry’s professionals.

3. The previous experience of the project applicant and the executor of the project (Latvian producer).
4. Previous experience of the project principal (foreign producer).
5. The distribution potential of the project and its ability to promote Riga city in Europe and worldwide.
6. The evaluation of the overall cultural criteria.

In order to be accepted, projects needs to gain at least 12 points (out of 30).

**Cultural requirements:**
There is no cultural test. But a high experience of project applicants and a positive impact on developing local audiovisual services generates additional points for the project.

**Investment’s form:**

**Cash rebate** of the total eligible expenses spent in Riga and Latvia:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Requirements</th>
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</table>
| 20%        | - the film with its storyline is set in Riga,  
|            | - a noteworthy portrayal of Riga in the story (at least 20% of screen time),  
|            | - major part of the shooting takes place in the territory of Riga. |
| 10%        | - the film shooting takes place anywhere in Latvia  
|            | - but uses the services of companies based in Riga. |

**Eligible expenses:** film-related transport, location and technical equipment rentals, catering, accommodation, public facilities, construction facilities, artistic and administrative services, etc.

**Projects already supported:**
Since its introduction, the cash rebate system in Latvia attracted foreign productions from the following countries:
- Denmark
- Finland
- Germany
- Japan
- Russia
- South Korea
- Sweden
- UK

Since 2010, the RFF has confirmed 26 projects for cash rebate, out of which 9 have been realised.

**The results of the fund:**
In 2013, the RFF has already granted 6 international co-productions.

The fund has supported 9 films since its launch in 2010. The eligible cost of these productions spent in Latvia accounts for 4,478,350 EUR. From these expenses Riga Film Fund co-financed (cash rebate) about 544,615 EUR.
The estimations of RFF shows that the total expenditure of foreign film industries in Latvia:
- in 2010 might have reached 7.8 million EUR,
- in 2011 – 10 million EUR,
- in 2012 – 9 million EUR.

**Summary of the Riga Film Fund, Riga:**

- Riga Film Fund operates a cash rebate reimbursing 20% or 10% of the production costs.