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Risk Perception and Management Methods in the Funding of Cultural Activity Sectors

by

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I. INTRODUCTION

1. Objectives and limits

The importance of the interactions between culture and development is increasingly acknowledged by economists and international cooperation organizations. Numerous studies and international meetings have highlighted culture as a key factor for sustainable development. This sector more than ever boasts strong potential to contribute to economic growth by generating both income and employment, thereby contributing to poverty alleviation in the developing countries in particular. It also promotes social cohesion, self-assertion and strengthening of cultural identities.

Nevertheless, it is undeniable that many countries, especially those of the South, can still not harness the full potential of their culture as a driver of development. Furthermore, a great disparity exists among countries regarding the dynamism of their cultural and creative sectors. Those of developing countries are confronted with difficulties to thrive and to generate interest from decision makers. Despite great progress on the analytical and rhetorical levels, and in spite of a myriad of meetings, colloquiums and declarations on this subject over the last years, the cultural sectors are insufficiently taken into account by financers and international cooperation: according to the OECD, only 1.7% of ODA went to the culture projects in 2007.

On the other hand, the cultural sub-sectors have been changing rapidly since the 1990s: globalisation and new technologies are transforming consumer trends, access to cultural goods and even the nature of cultural industries; new financial approaches (social economy, microcredit, new PPPs, etc.) could provide different forms of access to capital for these sectors; the development of micro-companies has modified the structure of cultural sub-sectors. These different elements, be they related to risk or opportunity, constitute the challenges for entrepreneurs and investors in order to contribute sustainably to a balanced development of the cultural and creative sectors.

In this light, UNESCO wishes to bring culture at the centre of the development reflection once again. At the 35th session of its General Conference in October 2009, the Organization held a symposium entitled "Culture and development: a response to the challenges of the future?". The purpose of the symposium was to re-launch the debate on the culture component as a new key to sustainable and more equitable development. Creativity of individuals, peoples and societies was once again strongly affirmed as a continually renewing capacity as well as an inexhaustible resource suited for inventing alternate models of development integrating the principles of cultural diversity.

Among the other ideas raised during the symposium, UNESCO has chosen to pursue the reflection on the funding of culture and in particular the perception of risk that the various economic agents (private investors, financial establishments, etc.) have of cultural activities, which seems to act as a major restraint on the development of such activities. While the inherent risks are very real, they are, however, no greater than those in other economic sectors. However, it is the appreciation and the management of these risks that need to be challenged, as they require a specific expertise and are at the origin of investor decision making.

This report contains a synoptic analysis that builds understanding of the primary funding mechanisms for cultural activities and enterprises, the inherent risks of such financing and methods for managing such risks. Its purpose is to provide to the reflection on new approaches to foster investments in cultural sectors in the developing countries, at a symposium to be held by UNESCO on April 16 and 17 2010. This meeting will gather representatives of governments, international financial institutions, bilateral and multilateral cooperation agencies, cultural entrepreneur networks and other stakeholders.

In this report the term "cultural activity sectors" will be used rather than the usual "cultural industries" or "creative industries", the definitions and boundaries of which are too narrow in the former case and too broad in the latter. The term "cultural activities" refers to activities whose chief purpose is the creation, development, production, reproduction, promotion, dissemination or marketing of goods, services or events that are cultural and artistic in content. Cultural content is defined as a "creation of the spirit" and a "unique production conveying artistic values, knowledge, sensitivities, etc.".

These activities take place in sectors organized according to a specific value-chain model composed of a series of steps crucial to the provision of cultural goods and services to an audience or a market. More specifically the sectors concerned are music, cinema, audiovisual, publishing and books, tangible and intangible heritage, live spectacles, the visual arts, cultural events, crafts, fashion and design with cultural content, the new technologies applied to art, etc.

2. Reminder of the importance of the cultural activity sectors to the economic and social development of States

- **The economic advantages of the cultural activity sectors**

The cultural activity sectors offer a balanced potential for economic development, as shown by the main characteristics or their economic dynamism:

- High added economic value of culture-related activities in the developed countries, especially in activities related to ICTs.
- The cultural activity sectors are labour intensive. Some, such as crafts and trades linked to cultural tourism or the preservation of built heritage, have a particularly great employment potential for developing countries.
- In developing economies, particularly the poorest, economic activity is often focused in a few primary production industries (agriculture, animal husbandry and fisheries) or raw material extraction. Owing to the difficulties inherent to those economies, opportunities for diversification are rare. Cultural resources stemming from the heritage and artistic creativity, found in all societies, may be developed to that end.
- The raw material of the cultural sectors is creativity. By definition, this content is specific to every community, people and nation and is thus hard to delocalize. In a context of exacerbated economic competition at the international level, culture is one of the only major advantages and non-negligible comparative advantages as a source of growth, which can only be used by local creators and operators.
- Export potential for the developing countries. The specific features of each society's cultural traits can be turned to an advantage through the production of cultural goods and services for which markets can be developed abroad.

The economic effects and impact of the cultural activity sectors take several forms:

- **Direct economic contribution through the development of cultural goods and services**

To illustrate the contribution of the cultural economy to the development of the countries of the North, reference will be made to the findings of a study commissioned by the European Commission.[1] It relates to the economic dynamics of the sectors known as "creative industries"[2] (which do not exactly correspond to the cultural activity sectors strictly speaking, but cover them for the most part) in 25 European countries. This study shows how culture drives economic and social development, innovation and social cohesion. The cultural and creative sector is a growth industry that is developing faster than the rest of the economy.

Thus the sector contributed around 2.6% to European GNP in 2003. By comparison, in the same year the property sector contributed some 2.1% to GNP, the food manufacturing, beverage and tobacco sector made an overall contribution of 1.9% and the textile industry scored 0.5%.

The sector also drives the growth of other sectors of the European economy, in particular that of new information and communication technologies. The overall growth of the sector's added value was 19.7% in 1999-2003, 12.3% higher than the rest of the economy.

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[1] Economy of Culture in Europe, KEA European Affairs, for the EC, January 2007

[2] Visual arts, performing arts (including opera, orchestras, theatre, dance, circus) heritage (including museums, heritage and archaeological sites, libraries and archives), music, cinema and audiovisual, television and radio, publishing, design, architecture, crafts and publicity.

Regarding employment, the sector performs better than the rest of the economy. In 2004 5,800,000 people were employed in the creative industries sector (which often requires a high level of skills), amounting to 3.1% of total employment in the 25 countries studied. While total employment in the European Union (EU) fell in 2002-2004, it rose (by 1.85%) in the culture sector.

With regard to the developing countries, the study on the economic weight of culture in Mali will be given as an example.[3] This study shows that the direct impact of the cultural activity sectors is significant in terms of added value in Mali's national product. Their direct economic weight was 2.38% of GDP in 2006 (it should be noted that GDP calculations in Mali include informal economics sectors that accounted, in 2006, for 57% of the country's total product). By comparison, the "banking and insurance" sector accounted for some 1.7% of the country's GDP that year.

With regard to employment, the total number of posts held in the culture sectors as the primary sector in 2004 was 115,000, accounting for 5.8% of Mali's active population. The chief sector from this viewpoint was the art crafts, which provided more than 100,000 work positions. This sector also contributes to a very great extent to the income of the poorest households as an ancillary activity, with 107,000 persons exercising a secondary activity in this field (for the most part agricultural workers who have a secondary or seasonal employment in the crafts).

Most jobs in Mali's cultural sector are low-income jobs done by the poorest sections of the population. Consequently, these sectors are an important factor in the drive against poverty.

- **A motor and resource for local development**

However, the direct economic impact of cultural activities is not restricted to the total worth of the goods and services produced in these sectors. Cultural and artistic activities also have a great impact, in particular on local development.

Cultural events, in particular festivals and other arts events intended for the general public, have a positive impact on local economic activity in all sectors. These cultural events take place in countries of the North and South and are a major source of income for local economies. In regions where few other resources are available, activities on which participants and audiences at regular cultural events incur expenditures are often the breath of life of the local economy.

Owing to the dynamics of cultural activities, the heritage or cultural events in some specific places, it is possible, by capitalizing on their cultural specificities, to tilt the balance of economic development in favour of regions and areas outside the major urban areas. The decentralization of cultural activities contributes to the economic and social development of outlying regions by building on specific cultural assets.

Capitalizing on cultural activities, heritage sites, monuments or cultural infrastructure can be the motor for revitalizing and regenerating towns or communities. For example, the inclusion of Saint-Louis in Senegal in the UNESCO World Heritage List has aroused greater interest in this city, and the number of visitors rose fivefold between 2000 and 2008.

II. FUNDING MECHANISMS IN THE CULTURAL ACTIVITY SECTORS

In view of the cultural, political and economic importance that some public authorities and society in general ascribe to the cultural activity sectors, their funding is very often mixed. Most cultural enterprises and projects are financed on the one hand by "commercial" funding sources, in other words sources motivated by profit and market considerations, and on the other hand by "non-commercial" sources, those that do not require market-related profitability.

[3] L'Economie de la Culture au Mali [The economy of culture in Mali], IBF for the EC, January 2007.

Depending on the kinds of activity, the economic environment and the country concerned, commercial and non-commercial financing are combined to varying extents. Some activities mainly require market funding and others rely wholly on non-commercial resources.
Even in the latter case, activities will always have a commercial component, since enterprises seek to develop their own sources of income and draw on market techniques such as the sale of derivative products or various kinds of publicity to attract the public.

1. COMMERCIAL FUNDING

To understand the commercial funding sources active in the various cultural sectors, a distinction must be drawn between “project funding” and “enterprise funding”.

- **Project funding**

Some cultural activities are funded primarily on the basis of a specific project, such as producing a film, an audiovisual work or a live performance. It should be noted that the funding by project technique was developed (especially in the cinema/audiovisual and performance sector) because of the amount of resources needed to produce works and the investment risks involved.

In this case sources of funds are chiefly generated by the project itself. To minimize risks, the production enterprise will seek dependable preliminary funding sources, known in advance, to cover a substantial part or even the whole of the project. The most conventional types of project funding, especially for audiovisual productions or performances, are:

- contributions by distributors and disseminators in the shape of premiums (guaranteed minima) in return for exclusive sales and/or distribution rights for an agreed period. These guaranteed minima may also relate to derived marketing rights (sales of goods, records and other features);
- advance sales of distribution rights to television channels or performance venues;
- contributions from the co-producers’ equity capital;
- contributions by “sponsoring” partners;
- pre-booked box-office income.

Such funding is identified, acquired and calculated before production starts. However, although calculated and known in advance, the actual payment of sums (such as advance sales and guaranteed minima) will be made only when production finishes and the work funded is delivered.

It is essential to turn to the banks when implementing such projects because the content producers require funding in hand before budgeted funds are actually available, even when the latter is known in advance.
In these conditions, the bank pre-finances the work and its role may be viewed as a “liquidity function” rather than fully-fledged “funding”. It simply anticipates the known future income that the enterprise will be paid only on delivery of the work. The project funding risk is therefore shared between the bank, which advances the funds and takes the risk of failure to complete or deliver the work, and the product’s pre-purchasers (distributors, disseminators and other stakeholders), who bear the commercial risks entailed in marketing the work.

It is quite unusual for banks to fund projects that are not supported by pledged credit, on account of the very high commercial risk. The banker will thus case cover pre-funding by using receivables (advance sales and guaranteed minima) and tangible or intangible aspects of the work to be produced as collateral security.

- **Enterprise funding**

Beyond the content production activities analysed above, the funding of most cultural sector enterprises resembles conventional financing in other economic sectors, although the inherent risks in this kind of enterprise and the bankers’ lack of knowledge of the economic model of those sectors lead to distrust on the part of the traditional financial system. Funding sources and techniques depend on the activity sector and the kind of enterprise concerned, which should be mentioned separately.

The technical film, audiovisual, music, book and radio industries (requiring technical equipment: laboratories, auditoria, studios and other facilities). This sector is very large and requires huge amounts of funds. In the main this relates to the funding of facilities and technical equipment. The funding takes the form of conventional physical investment credits, of leasing and of financial rentals. This kind of funding is possible because there are real guarantees in the form of the equipment funded, for which there are relatively well-developed secondary markets.

Consequently such funding is provided mainly by banks and leasing companies. The particular problem that enterprises and bankers face in this sector is the speed of hardware obsolescence compared with the size of the investments required. The national and/or international markets must therefore be sufficiently large to ensure that the investment is recovered within the necessary timescale.

Cinema halls, performance halls, theatres, art galleries. These activities are generally financed as real-estate investments in the construction, purchase, conversion or development of premises. In this case, bank funding takes the form of conventional property credits systematically backed by mortgaging the premises funded. Funding of standard property credit or financial leasing packages is possible and even usual in this sector. Of course, the risk of losses in this case is low because the property is used as security, which is not the practice in other kinds of cultural undertakings. None the less, the scale of the investment required and the low commercial visibility of the projects discourage both cultural promoters and investors in the sector, particularly in the developing countries.

Publishing books, records and other material. The most typical funding needs relate to increased working capital requirements associated with the production of works, since the production cycle is shorter than the time needed to sell the product (books and records, for example). Where the enterprise concerned already has a catalogue or significant editorial stock, the market requirement may be met to some extent from own resources generated by exploiting them, but any significant development of the editorial stock or catalogue requires external funding. Recourse must be had to the financial system and it is difficult to replace it by other commercial funding sources. However, owing to the commercial risk and fragility of enterprises operating in this niche, there are hardly any resources available for their development.

Bookshops. Here two kinds of funding need may be distinguished: those relating to property (such as purchase and fitting out) and those linked to funding the stock If no other sources than owner’s funds are available, bank resources must be secured for the development of bookshops. Analysis of business plans in this sector is similar to any commercial enterprise, with a few finer points that are unique to the book market. Real guarantees are unusual.

In conclusion, it must be stressed that each cultural sector comprises various actors ranging from the content producer to the end-distributor. A sector’s performance depends on each link’s ability to perform its role properly. The financing of an enterprise in the production chain will therefore be translated into increased resources for the entire sector, since the income arising from the “sales” of a cultural work will be distributed among all those with rights in the work, such as the content producer, the author and the distributor. Each component in the sector will receive part of the sales income, depending on the contracts between the parties. For example, if cinema halls are financed, viewing of the films produced will be improved and income will be generated for the producers and distributors. (This phenomenon was one basic reason for which the situation of cinemas in several European countries has been improved).

2. NON-COMMERCIAL FUNDING

The distinctive nature of the funding of cultural sectors as compared with other economic sectors is illustrated and highlighted by the lively debates and negotiations conducted by the international authorities, in particular the WTO and UNESCO, about the adoption of an international framework of standards known as “the defence of cultural diversity”, authorizing each country to formulate and establish its own policies to support and assist various cultural sectors. One of the objectives of the Convention on the Protection and Promotion of the Diversity of Cultural Expressions is to enable or continue forms of assistance and support that are gradually being banned in other economic sectors.

The sources of non-commercial funding are specific to each country and depend on the cultural support policies in force; but it is obvious that there is a dearth of such sources in the developing countries. In most of the developed countries, virtually all cultural sectors are supported by specific policies, which take several forms.

Direct public authority support and funding in the form of:

- financial assistance (such as subsidies and refundable credits);
- public investments and purchases (such as books for libraries and schools, art works for museums or public spaces and performances);
- single price policies for some cultural goods;
- preferential fiscal treatments (for example tax credits and reduced VAT rates).

Such assistance is generally provided by governments. However, for several decades an ever increasing number of local authorities (provinces, regions and municipalities) have been making their own arrangements to aid cultural sectors in addition to government assistance. In some countries, public finance is channelled through bodies that are not directly related to the State but fulfil the same role. One example is Britain's National Lottery, which funds cultural activities extensively in the United Kingdom.

Private-sector funding

- In consideration of tax advantages granted by the public authorities, private sector enterprises contribute to the non-commercial funding of cultural activity sectors in various ways, such as patronage, foundations and scholarships. These forms of funding are common in certain fields, particularly in English-speaking countries.

Whether granted directly by the public authorities or the private sector, these various forms of funding are often made available to enterprises with a certain lag between the point at which the funding need becomes urgent and the point at which the funds are paid.

There is a need for the banking system to play a part to provide the bridging funds necessary for the activities to be financed. This part will be essentially covered by the non-commercial funding to be provided.
In every case, of course, the banker and the cultural enterprise make their funding plans in the light of all the known sources of funds, both those from commercial sources and those that are not-for-profit.
Non-commercial funding sources strengthen a project's viability because they do not usually generate major financial charges or requirements for reimbursement.

It should be noted that, in addition to support from the public authorities, some commercial funding sources are found in response to a requirement imposed by the public authorities on various private operators. For instance, in most European countries television channels have some kind of mandatory requirement to purchase national or regional productions. These funding sources may sometimes be of crucial importance to the economy of a sector, as in the case of the cinema and audiovisual production in France.

III. RISKS INHERENT IN FUNDING CULTURAL ACTIVITY SECTORS

Non-specialist financiers perceive risks in the cultural activity sectors that make them very wary of enterprises in those sectors and thus usually reluctant to provide finance without physical collateral. The following analysis does not claim to list every risk arising from cultural activities and enterprises, but it identifies the most significant ones.

1. GENERAL CHARACTERISTICS

In general three major types of risk can be identified in cultural activity sectors.

- **Commercial risk**

The chief risk arising from cultural activities stems from the difficulty in foreseeing whether a work will be a commercial success. Commercial risk arises because the reception that the public will give a cultural production cannot be known in advance. This risk introduces a major unknown into assessments of the future income to be generated by a cultural activity and is not calculated to reassure financiers. As a result, financiers who specialize in these sectors prefer certain specific kinds of funding (such as pre-sales, guaranteed minima and subsidies). Even then, the arranged pre-funding depends on the buyers' (performance halls, television channels, distributors and others) and non-commercial funders' ability to pay. Consequently, there is another risk relating to the solvency of the latter, which the financier must analyse.

- **Risk associated with the survival of the enterprise**

Assessing the business plan of a start-up cultural enterprise is complex because it is difficult to judge how well cultural products will be received by the target customers. Conversely, when an enterprise has been operational for several years, its survivability can be analysed on the basis of objective parameters relating to its financial structure and its past results. However, other than the major integrated groups, cultural enterprises are chiefly, in almost every sector and country, small- or medium-sized enterprises with a weak financial basis and a chronic lack of equity capital.

The inability to attract substantial equity capital means that financiers often face the major risks of enterprise survival or failure.

Beyond its financial structure, a cultural enterprise's survival may be threatened by a breakdown in business relations with major content providers (such as writers, singers, scriptwriters and producers) and/or the inability to find new talent and renew the portfolio. For instance, when most income is generated by a few authors or content providers, the departure of only one of them may lead to a significant drop in turnover and, over time, threaten the enterprise's survival.

- **Risks arising from rights management and piracy**

Most cultural works are subject to contracts for assignment of rights between the various players, from the creator to the end-distributor. These contracts are of the essence to funders, who cover their risks through collateral security, assignment or mortgaging of royalties and/or future receipts.

For example, if a contract transferring rights from the author or producer is nullified for whatever reason, all user and collateral security contracts signed by the producer with third parties (for example, distributors, disseminators and financiers) become null and void. Consequently, the legal risk relating to these various contracts must be minimized through recourse to appropriate legal expertise.

Furthermore, cultural enterprises' rights are often spoliated through piracy and such enterprises cannot profit from their investments even where there is indeed a market for their works. In many developing countries, piracy slows investment in cultural activity sectors or restricts them to a purely informal dimension with no prospect of economic development. This risk, which can only be combated by the public authorities with the support of international bodies, is taken seriously by financiers who are the more reluctant to fund cultural enterprises.

2. RISKS INCURRED BY NON-COMMERCIAL FUND INVESTORS

The contributors of non-commercial funds – the public sector, patrons, foundations and other players – do not intend their investments to return a profit. Contributions are not dependent on the profitability that they generate and are often written off as irredeemable. These not-for-profit resources enable the various cultural actors in the activity sectors where commercial income is inadequate to maintain a financial balance (or even profit) and to survive. The risks incurred are twofold:

- risk as to the enterprise's ability to find the necessary joint funding to enable it to balance a project's funding and/or the development of the enterprise;
- risk as to the enterprise's ability to meet its commitments, particularly in respect of the production and delivery of the goods and/or services funded.

In practice, these risks are weighed and considered when providers of non-commercial funds decide to grant finance.

3. RISKS INCURRED BY COMMERCIAL FUND INVESTORS

The contributors of commercial funds – such as bankers and professional investors – face the same profitability constraints as other sectors of the economy. They incur risks that vary in nature depending on whether they invest in content production or the marketing and technical industry sectors. The risks below have been identified by grouping the chief sectors in the light of their funding.

- **Risks of investing in content production enterprises**

Owing to the nature of the activities of content production enterprises (cinema and audiovisual producers, performance producers, book and music publishers), they may be perceived and analysed as capital-risk activities. Each product is a prototype and commercial success is very difficult if not impossible to foresee in advance, the more so when production resources are not massive and the size of the market is relatively small.
Of the entirety of works produced, only a small number will find a significant market and make profits. Consequently, the enterprise will produce prototypes of which one, from time to time, will prove a commercial success that will secure adequate long-term profitability. Such profitability can neither be guaranteed nor even expected in the case of each of the "prototypes" produced or sold, but will rather be sought over the medium and long terms.
In the same way as risk capital companies, content production enterprises can only survive if they can generate over time a number of "successful projects" so that an overall profit can be made on all projects funded.

- **Risks of investing in enterprises in the technical industries sector**

Enterprises in the technical industries sector of the cinema and audiovisual, music and the publishing (providers of technical supplies, such as laboratories, auditoriums, print facilities and copy shops) are characterized by the scale of the investments required to remain abreast of technological development owing to the rapid obsolescence of technical material. The principal risk is whether a (national and/or international) market of sufficient size and liquidity is available to ensure a return on investment before the equipment funded becomes obsolete. However, the financier's risk of loss is low because of the provision for physical guarantees.

- **Risks of investing in cinemas, performance halls, theatres, art galleries, bookshops**

The risk here relates to the sector's low commercial visibility, because the content offer (films, performances, books and artefacts, for example) does not depend solely on these outlets and the success of the programme on offer is uncertain. The financier's risk of loss, however, is low because of collateral securities in the form of real estate.

4. RISKS INCURRED BY CREDIT INSTITUTIONS

The risks incurred by credit institutions are the same as described above. It should also be stressed that no matter how a cultural project is funded (commercial or non-commercial sources), the enterprise regularly calls on bank credit in order to bridge the time-lag between the need and the availability of resources (even when they are of non-commercial origin). This situation puts bankers in the position that they hold in every sector: they are the key economic players in every enterprise's development strategy.

IV. MECHANISMS FOR MANAGING RISKS INHERENT IN THE FUNDING OF CULTURAL ACTIVITY SECTORS

Assessing and managing the risks inherent in funding the cultural activity sectors calls for high-level expert evaluation of the functioning of cultural industries, the legal and institutional framework in which those industries operate and sound knowledge of the practices of the various players. Failure to recognize these specific factors by conventional financial institutions and other non-specialist investors has led some countries to establish both mechanisms for risk-sharing with the banks that provide financial support for cultural enterprises and activities and direct investment mechanisms by founding specialist financial bodies. These two approaches share the characteristic of specialization, enabling skill and specific risk-assessment expertise to be accumulated so that financing instruments suited to the particular nature of cultural activities can be devised.

Owing to their expertise, financial bodies specializing in funding cultural enterprises are less prone to credit repayment defaults than those in other economic sectors. In France, for example, the default rate of the

Institute for Funding the Cinema and Cultural Industries (IFCIC) varies between 0.3% and 1.9% of its outlays.[4] By contrast, the default rate of Oséo Garantie (a body that underwrites credit operations by small- and medium-sized enterprises in other economic sectors) was 2.7% of its total outlays in 2008.[5] In Quebec, the *Société de Développement des Entreprises Culturelles* (SODEC) has a bad loan rate of less than 4% which has enabled it to keep its initial endowment of $20 million intact for more than 30 years.[6]

1. Risk-sharing by specialist bodies

Risk is generally shared by financial bodies owing to the establishment of a guarantee fund by the public authorities in order to promote the development of cultural enterprises and provide easier access to funding.
The guarantee fund acts by lowering the risk borne by a credit institution when funding a project for an eligible enterprise, by taking over part of the risk of any financial loss associated with the operation. Consequently, the role of the guarantee fund is to encourage banks to participate in these sectors by taking expected receipts into account, in the case of project funding, or through more conventional credits in the case of enterprise funding.
The guarantee fund acts as part of a market mechanism. It does not replace the banker in his central role of assisting enterprises. The credit institution turns to the guarantee fund when it considers that the inherent risk in the funding operation is higher than it can itself bear. By taking responsibility for part of the cost of the risk, the guarantee fund simply enables credit bodies (banks, credit leasers, specialist bodies) to finance projects that would otherwise be deemed too risky to be funded as a commercial operation.

The guarantee directly benefits the credit institution and does not replace the usual securities covering the operation (collateral security, real and personal securities, pledging of receipts and so on). The securities are taken on a joint account, in other words, they are credited both to the bank and to the guarantee fund in proportion to their respective shares in the risk, since they will share any final loss associated with a failed operation.

Risk sharing also enables credit institutions to offer enterprises more favourable funding terms. Thus it may offer a lower interest rate taking account of the reduced cost of the risk. However, it should be stressed that an operation's cost of risk is only one element in the final interest rate offered by the credit institution, but it nonetheless is one of the fundamental factors considered by a credit body when assessing a credit operation.
In addition to risk sharing, the involvement of a guarantee fund assures the credit institution of the high level of expertise that will be applied to the risks of the operation funded by the specialists of the fund management body.

2. Financial assistance from specialist institutions

There are financial institutions that, by virtue of their expertise in analysing and assessing the risks inherent to cultural activities, are wholly dedicated to cultural enterprises and often have a specialization in certain activities only. They provide financial assistance mainly in the form of loans to enterprises in those sectors.
In some countries, financial bodies have been tasked by the public authorities with contributing to the funding of some categories of activity (e.g. those most at risk from technological or economic change) or enterprises of strategic interest. Such action takes the form of establishing an investment fund to provide financial assistance in the form of top-up loans together with other conventional financial institutions and/or to take shares in some categories of enterprise.

3. The performance guarantee

The performance guarantee system is found in the cinema production sector. It is used in several countries, notably the United States of America, Canada, Britain and Germany.
The performance guarantee is a contract under which a third-party company (the guarantor) assures to some of the film's backers (the beneficiaries) on behalf of the producer that the film will be delivered at a given date for a pre-determined budget. This contract therefore replaces the performance commitment initially given to the

[4] IFCIC Annual Report for 2008.
[5] Oséo Annual Report for 2008.
[6] Introductory note produced by SODEC for the Seminar on the economic and financial analysis of cultural industries (Tunisia, March 2003)

financial partners by the producer of the work. The guarantee is designed to protect the investors against any over-run or delay in delivery if that is prejudicial to them.
The main area of discussion between the guarantor and the producer is the "strike price", which is the minimum sum of expenditure on the film set by the guarantor. Only when the strike price has been reached and funded can the guarantor be called.
Once called, the guarantee may take one of two forms at the guarantor's discretion:

- either the guarantor halts production and pays the beneficiaries back the sums that they have advanced;
- or the guarantor continues production and advances whatever sums are necessary to complete the work. In Canada the performance guarantee is therefore called the "completion guarantee".

Where necessary this decision may be accompanied by a "takeover", in which the guarantor takes a more or less major share of control over the film.

V. DESCRIPTION OF SOME FINANCING AND RISK MANAGEMENT MECHANISMS

I. QUEBEC'S SOCIETE DE DEVELOPPEMENT DES ENTREPRISES CULTURELLES (SODEC)

1.1 Historical background

Given the strategic role that culture, and more specifically cultural industries, play in affirming the specific characteristics of the province, Quebec very early on decided how it would support cultural action within its borders. Since the early 1960s and over a long period of time, the government acted mainly through the Cultural Affairs Ministry.
In 1978, in order to meet changing requirements and faced with the need to fund cultural enterprises owing in particular, to their under-capitalization, their small size, the small size of the market in Quebec and the small amount of products exported, the government established the Cultural *Société de développement des industries culturelles et des communications* (SODICC), with an initial endowment of CAN $10 million.
As a "specialized bank", SODICC's role was to provide cultural companies with financing facilities to which they had no access at traditional financial institutions that were not prepared to bear the risks inherent in cultural sectors.
To meet the growing needs of cultural companies and in view of the success of the facilities put in place, the government decided to increase the SODICC's capital to CAN $20 million in 1982. Its capital has not since been raised. Following a consultation focusing on both an assessment of action taken to date and the restructuring of the company, SODICC became the *Société de développement des entreprises culturelles* (SODEC) in 1995.

1.2 SODEC's roles

SODEC ensures that the Quebec government's action is consistent in cultural sectors, by performing four complementary roles:

- it offers the services provided by an investment bank, including loans and loan guarantees and, in exceptional cases, it invests in the project and in share capital;
- it administers government aid earmarked for cultural enterprises to support the production, distribution and the export of works; such aid is granted in the form of investment in the project, grants or repayable aid;
- it manages tax credit measures granted by the government to cultural enterprises, which take the form of refundable tax credits on the cost of labour incurred designing and producing works;
- it conducts or participates in research and sector analyses and coordinates the work of various consultative commissions.

SODEC also contributed to the establishment of the *Fonds d'investissement de la culture et des communications* (FICC), in which it holds a one-third stake. The FICC is a venture capital fund that acquires stakes in companies.
SODEC is also a partner of the Entertainment Investment, Limited Partnership (FIDEC), a public private partnership, whose remit is to invest in projects that are international in scope.

1.3 SODEC's operations as an investment bank

SODEC operates as an investment bank in the various fields of the culture and communications sector. Its funding facilities are designed to meet all financial needs of sector enterprises and include financial tools generally offered by financial institutions, namely loans at notice, revolving credit, loan guarantees and, in exceptional cases, investment in the project and in capital stock.
SODEC prefers loan guarantees for term financing. In exceptional cases, SODEC invests in the project or in capital stock, only for major projects aimed at industrial structuring. In those circumstances SODEC plays a proactive role in the development of the project, but constitutes a funding source of last resort. Rather, it directs projects to the *Fonds d'investissement de la culture et des communications* (FIDEC) and to the Entertainment Investment, Limited Partnership (FICC).

SODEC categorizes each file according to the type of financing required by the client. The types of financing fall into the three categories outlined below and only the last one does not take the form of a loan guarantee:

Conventional operations
This category comprises financing operations such as discounts on ticketing, partnerships, grants, all other contracts and the purchase of fixed assets or stock by the enterprise. Funding in this category gives the enterprise access to credit backed by a form of security that is not generally recognized or that is too specialized for traditional financial institutions.

Development
This type of financing is designed to bolster an enterprise's working capital and is used to meet all of the needs of a business in good financial health, enabling it to carry out various expansion projects. Examples of acceptable funding include the launch of products on new markets, the development of new concepts or of new products, export initiatives, the opening of new sale outlets and the acquisition of foreign firms (in part or in whole) in order to improve the enterprise's position on international markets. Such funding can also be offered for the establishment of companies in new competition-free niches, when all project components point to a high likelihood of success.

Recovery
This type of funding cannot take the form of a loan guarantee since, by definition, the applicant has to prove that the financing required is not available elsewhere on terms that would be viable for the enterprise. Such funding is used mainly to keep companies experiencing temporary financial difficulties afloat, if their collapse would adversely affect the sector. Investment in new fixed assets or aimed at expanding the enterprise's normal operations, that is not essential to its survival, may not be funded under this head. The applicant must, moreover, prove that the enterprise is potentially profitable in the short term.

1.4 SODEC's role as a complementary to other financial partners

An enterprise's total funding requirements sometimes exceed the capacity of traditional banks, given the lack of cover by guarantees, resulting from a conservative approach to the liquidation value of the assets put up as collateral. SODEC may in such cases be involved in a complementary capacity and provide the bank with reassurances as to the enterprise's ability to achieve its financial forecasts, since it has all of the requisite tools. The bank is always the first ranking lender on the assets that it finances (receivables, inventories, property, plant and equipment). SODEC accepts a second rank and can recognize a liquidation value on off-balance sheet assets (rights, master tape) following a valuation.
The presence of SODEC, in partnership with financial institutions, encourages the latter to grant cultural enterprises loans at relatively low interest rates. SODEC also draws financial institutions into investing in an economic activity in which they were insufficiently involved, encouraging activities reputed to be sensitive for financial institutions in new or evolving branches of activity.

1.5 SODEC’s relations with other economic stakeholders

SODEC’s relations with other economic stakeholders rest on two lines of action – strategic analysis and financial analysis.
By producing studies that enable other players to understand the complex environment of cultural enterprises, SODEC helps to raise awareness of cultural industries and at the same time, determines their contribution to the economy of Quebec. First, once they have read these studies, the sector’s stakeholders become aware of the intrinsic value of their field of action, which helps to put problems encountered into perspective. Second, by disseminating such information in cultural, economic and political circles, SODEC contributes to the public debate and to a better understanding of culture and its organizations.
By sharing its financial views and analyses with a wide range of local, regional and national economic stakeholders, SODEC constitutes a forum in which different points of view are expressed and deep insights can be gained into the stakes involved in project funding and business plans. In its exchanges with ministries, other State-run companies, specialized funds, investors and, naturally, banks, SODEC paints a transparent and clear picture of the fields that it finances. Owing to its experience, it can put economic developments into perspective and suggest solutions that reassure all partners.

1.6 Entertainment Investment, Limited Partnership (FICC)

Entertainment Investment, Limited Partnership (FICC) has a share capital of CAN $30 million and its partners are SODEC (one third of the capital owing to a refundable government advance) and the Quebec Solidarity Fund (FTQ). It was established in 1996, in response to the observation that firms’ needs for financing tools increased in line with their development and their success. The remit of FICC is to facilitate the capitalization of companies that have reached a certain level of financial maturity and have proven substantial growth in buoyant fields. FICC offers venture capital tools, such as share capital and convertible debentures.

1.7 Fonds d’investissement de la culture et des communications (FIDEC)

In partnership with financial institutions and with companies in the sector, SODEC has also established the *Fonds d’investissement de la culture et des communications* (FIDEC). The purpose of this limited partnership is to meet the needs of cultural enterprises active in the fields of cinema, television production, shows or the promotion of artists, by providing them with new financial tools in order to support the production and the marketing of the products aimed at international markets. It invests in the form of funding such as advance loans, project investment, rights acquisition and equity investment, quasi equity and debt. The remit of FIDEC, in which SODEC has a CAN $20 million stake, is to invest in projects on an international scale. It has a share capital of CAN $45.5 million.

1.8 Main results[7]

Analysts employed by SODEC’s investment bank are as rigorous as those working for traditional financial institutions. The difference lies in their unique competencies in the cultural sector and the need, owing to SODEC’s role as a public institution, for them to take the same approach to service in processing all loan applications, regardless of the financial amounts involved. Owing to its analysts’ rigour, SODEC has less than 4% in bad debts and has kept its initial endowment of CAN $20 million intact, and its investment bank is thus still active 25 years on.

Funding of enterprises

Breakdown of authorizations by financial tool (2008-2009 financial year)			
Financial tool	Number of authorizations	Amounts ($)	%
Revolving credit	21	10,865,000	46.6
Collateral security margin	8	3,645,000	15.6
Loan at notice	20	8,822,000	37.8
TOTAL	**49**	**23,332,000**	**100**

[7] SODEC report for the2008-2009 financial year.

Funding of enterprises

Breakdown of authorizations by field (2008-2009 financial year)			
Field	Number of authorisations	Amounts ($)	%
Performing arts	8	4,225,000	18.1
Cinema and television production	23	11,362,000	48.7
Music and variety shows	5	3,700,000	15.9
Books and publishing	10	3,475,000	14.9
Multi-media	3	570,000	2.4
TOTAL	**49**	**23,332,000**	**100**

Breakdown of all of the SODEC's funding by nature of activity and by field (2008-2009 financial year)					
	Aid programme		**Funding of enterprises**	**Tax measures***	
Field	General programme	Export and for cultural influence programme	Funding enterprises	Prior decisions: estimate of tax credit	Intermediary financing
Performing arts			4,225,000		
Visual arts					
Film and television production	33,838,046	1,783,996	11,362,000	97,043,364	6,238,941
Music and variety shows	12,774,926	1,769,137	3,700,000		
Dubbing				2,127,155	
Sound recording				1,347,165	55,574
Books and publishing	4,585,422	706,158	3,475,000	5,883,212	218,828
Software					
Print media					
Art related	3,572,834	229,827			
Multi-media			570,000		
Musical comedy production				9,399,910	224,296
Radio					
Production services					
Film and television				24,631,127	
Multi-sector					
TOTAL	**54,771,228**	**4,515,615**	**23,332,000**	**140,431,933**	**6,737,639**

II. L'INSTITUT DE FINANCEMENT DU CINEMA ET DES INDUSTRIES CULTURELLES (IFCIC)

2.1 Historical background

After the Second World War, film production in France was in complete disarray. As early as 1949, the State authorities set themselves the task of reconstructing this strategic industry, by focusing firstly on the problem of how to finance it. Producers were experiencing great difficulty in finding financiers willing to cover the legal risk and the completion risk of a film, not to mention the risk of a commercial failure. One of the first steps taken by the authorities was thus to put in place government-subsidized loans. Then, in the 1960s, the State authorities simultaneously established a fund in support of the film industry and a system of bank guarantees. Established in 1968, the guarantee system was initially entrusted to a specialized banking pool. The guarantee (80%) was thus managed by bankers themselves and the interest rate was subsidized.

From 1983, for neutrality reasons and in order to encourage the development of competition between banks in this sector, the guarantee fund was entrusted to a specialized body, IFCIC, which is not involved in any other banking activity and in which capital the State was a majority stakeholder. In the same year, its terms of reference were expanded to include all cultural industries – publishing, musical production, live shows and so on.
IFCIC is thus a neutral and independent body. Neutral, as it is open to most of the lending institutions, and independent, as it is financially responsible for all of its decisions.
Its main public shareholders are, after the State are the OSEO group and the Consignments and Loans Fund, which together hold around 49% of the share capital. The remainder is held by 15 private banks and lending

institutions. Most of the major banking networks and lending institutions are involved or represented in the capital through their parent companies or through a federative body.

2.2 Scope of work

A private limited company, operating in the public interest, the IFCIC is a lending institution that has mandated by the Ministry of Culture and the Ministry of the Economy and Finance to contribute to the development, in France, of the cultural industries, by facilitating access to bank financing for companies in this sector. It has two specific tasks, namely to:

- give cultural enterprises access to bank funding, by providing guarantees, generally amounting to 50%; loans guaranteed by IFCIC are granted to finance most of the requirements of cultural enterprises, at all stages of their development, but IFCIC does not grant loans (except in the case of repayable advances of funds) nor subventions;
- provide a high level of expertise to bankers and to entrepreneurs; owing to its understanding of the sectors, to its research committees and networks of professional experts, the Institute has access to the requisite information for thorough analysis of the risk posed by enterprises applying for funding and can work with them in compiling their loan applications.

2.3 Operational instruments

Guarantee funds
IFCIC has around €13 million of equity capital and, more importantly, two active guarantee funds that have an overall net worth of more than €66 million:

- the cinema and audiovisual guarantee fund, funded by the National Cinema Centre (CNC);
- the cultural industries guarantee fund.

These funds are used, on the basis of regularly revised risk ratios, to guarantee outstanding risks (IFCIC share) of some €20 million, corresponding to around €540 million in loans, while maintaining adequate capacity to cover new risks taken.

The amount of public funds managed by the IFCIC is determined on the basis of targets for new loans to be guaranteed for each operational sector. In general, funds are granted under a contractual arrangement involving IFCIC, CNC, the Ministry of the Economy and Finance and the Ministry of Culture. If necessary, under that arrangement, certain annual priorities are set for action by the Institute. Owing to public monies paid into the guarantee funds and to the strong leverage effect they permit, IFCIC affirms its role as the preferred partner of cultural enterprises, at a lower cost for the State and for guarantee beneficiaries.

Advance funds
The IFCIC is also authorized by the Bank of France to manage repayable advance funds available for enterprises operating in cultural sectors. To that end, in 2006, IFCIC established the Musical industries Advance Fund (FAIM), endowed with €2.9 million and assigned to it the role of backing investments to help independent music companies develop or adapt to changes in the industry. FAIM's funding is to be increased considerably in the near future, owing to a contribution by the Consignment and Loans Fund.
The following investments are eligible for grants: editorial investments, tangible and intangible investments, financial requirements linked to structural growth, transmission operations and recovery plans. Advances, limited to a maximum outstanding amount of around €150,000 per enterprise or per group of enterprises, bear interest at the rate of 4% per year and are repayable over a period of 12 to 48 months, possibly including a grace period.

2.4 Credit mechanisms

Loan guarantee for the film and audiovisual production and distribution sectors
This activity has historically underlain the establishment of the IFCIC. It gives independent producers and distributors access to credit to obtain the cash flow necessary for producing or distributing their works, although their capital gearing is often very light. The particular risk of such loans, which underlie financing agreements relating to the work, attaches to the quality of such financing and to the completion of the work (budget not to be exceeded, delivery to different partners). Operations eligible for this guarantee are outlined below.

Production loans are granted to finance expenses relating to the acquisition of intangible rights in one or several works or expenses concerning subsequent stages in the development of corresponding projects. They can be guaranteed up to 70%. These loans are also used to finance pre-production costs, when the decision to produce a film has been taken and directing film-making costs have been incurred, and actual film-making costs (filming and post-production) until delivery of the film. These loans are usually guaranteed for up to 55%.

Distribution loans are granted to finance expenses linked to the payment of a minimum guarantee of receipts agreed by the distributor, or promotion and publicity launch expenses, and also reproduction expenses incurred for film screening in cinemas.

Company loans are granted to provide medium-term financing to distribution and production enterprises. They should be backed by a substantial “portfolio” of existing films. The last two types of loan can be guaranteed up to 50%.

Loan guarantee for cultural industries

The historical activity of guaranteeing film and audiovisual production loans has been extended to all cultural industries in order to provide special backing for small- and medium-sized enterprises in a reputedly high-risk economic sector.

Enterprises in the cultural industries sector in European Member States can receive this guarantee. They include books (publishing, distribution, book shops), music (publishing, record production, production of shows), live shows (production, acquisition and fitting out of theatres), fine art (galleries and studios), arts and crafts (production and sale), heritage sites (exploitation and restoration), architecture (architects’ firms), multimedia (producers, publishers, technical service providers), the press (political and general press information, cultural press), film exploitation and technical industries for image and sound.

Loans guaranteed are intended to finance most of the requirements of cultural enterprises, at all stages of their development – investments in publishing, real estate, equipment and material, rights acquisition and licences, campaign credits, working capital funds that have become necessary owing to the development of the activity and the purchase or establishment of companies, to list but a few. These could be medium- or long-term loans, leasing products or bank guarantees, or again some short-term loans.

The guarantee generally amounts to 50% of the loan, and risk capping is enforced by IFCIC (€100,000 as at 31 December 2008). The guarantee rate can be as high as 70% of the loan for amounts below €100,000, or up to €140,000 for projects involving the digitization of media archives.

Loan guarantee for cinemas

IFCIC provides financial guarantees and expertise to the banks of cinemas that are independent of the major distribution groups. This guarantee amounts to a maximum of 50% of the loan, capped at €2,150,000. All cinema operators’ requirements can be financed with the assistance of IFCIC: establishment, purchase, modernization and fitting out, replacement of operating equipment and working capital increases.

Loan guarantee for the film, audiovisual and multimedia technical industries

IFCIC offers financial guarantees and expertise to banks that finance the film, audiovisual and multimedia technical industries.

Eligible operations are medium-term loans designed to finance:

- external growth;
- investments in real estate (acquisition, construction, works);
- investments in equipment;
- Restructuring and working capital increases.

These operations are generally guaranteed at a rate of 50%, capped at €2,150,000.

Loan guarantee backed by assigned receivables.

The IFCIC provides financial guarantees and expertise to banks and financial institutions that assist in the financing of the assigned receivables of the film, audiovisual and multimedia technical industries.

Lending institutions are rather reticent about making credit lines available on the basis of assigned receivables held by enterprises whose solvency cannot really be assessed by the lending institutions (such as the lack of relevant information and inadequacy of ratios that are generally used).

In order to meet the beneficiaries' working capital funding needs, IFCIC shares the risk with the lending institutions, which consequently limits their risk of loss that could be incurred if the beneficiary cannot repay the receivables assigned and unpaid.
Eligible funding includes factoring, "Dailly law" assignments and discounts. The guarantee rate is generally 50%, capped at an amount determined in line with the funding arrangement made (10% to 20% of the guarantee line).

2.5 Main results[8]

As at 31 December 2008, total outstanding commitments guaranteed by IFCIC amounted to €564.6 million, while IFCIC 's outstanding risk stood at €273 million. Short-term loans for film and audiovisual production accounted for more than 80% of the latter amount.

- Guarantees granted in 2008 for film-making loans (production loans) were used to finance practically all (nearly 90%) of French film production. IFCIC's outstanding risk (excluding disputes) for film production amounted to €172.1 million as at 31 December 2008, corresponding to €325.3 million in loans. As at 31 December 2008, disputed outstanding amounts totalled €3.2 million.

- The outstanding risk (excluding disputes) for audiovisual production amounted to €44.9 million as at 31 December 2008, corresponding to €85.7 million in loans. As at 31 December 2008, disputed outstanding amounts totalled €1.1 million.

- The outstanding risk (excluding disputes) for cultural industries amounted to €15.8 million, corresponding to €40.2 million in loans. As at 31 December 2008, disputed outstanding amounts totalled €1 million.

- The outstanding risk (excluding disputes) for technical industries amounted to €10.3 million as at 31 December 2008, corresponding to €30.3 million in loans. As at 31 December 2008, disputed outstanding amounts totalled €0.6 million.

- The outstanding IFCIF risk (excluding disputes) for cinema operators amounted to €24.2 million, corresponding to €71.6 million in loans. As at 31 December 2008, disputed outstanding amounts totalled €0.4 million.

III. THE FONDS DE GARANTIE POUR LE FINANCEMENT DES INDUSTRIES CULTURELLES (FGIC) / ORGANISATION INTERNATIONALE DE LA FRANCOPHONIE

3.1 Overview

The decision to establish a guarantee fund is the result of the desire of the *Organisation Internationale de la Francophonie* (OIF) to promote the development of cultural enterprises in countries of the South. Cultural activity sectors are perceived by traditional financial players as being particularly risky sectors. Accordingly, the OIF deemed it necessary to work together with lending institutions in funding these sectors, which are today often excluded from traditional bank financing.

The purpose of the guarantee mechanism operated by the *Fonds de Garantie pour le Financement des Industries Culturelles* (FGIC) is to reduce the final risk borne by a lending institution when it provides funding for a project and/or enterprise, in pre-determined conditions.

The OIF has established three distinct guarantee funds (for a total amount of €1,185,000 as at 31 August 2009) that have been operational since 2004 in the following countries:

- Morocco (funds amounting to €290,000);
- Tunisia (funds amounting to €280,000);
- West Africa: Benin, Burkina Faso, Cote d'Ivoire, Mali, Senegal and Togo (funds amounting to €615,000).

[8] IFCIC 2008 annual report.

The OIF has formed partnerships with specialized financial institutions in beneficiary countries for the purposes of delegating the management of the funds and the analysis and assessment of the risk of applications made for the guarantee it provides.
For Morocco, the OIF has formed a partnership with the Central Guarantee Fund (based in Rabat), which is a financial institution specialized in the management of guarantee funds. For Tunisia, the OIF's partner is the Tunisian Ministry of Finance, which delegates the management of the funds to a Tunisian insurance and reinsurance company (Tunis Ré), a state-owned company based in Tunis. For West Africa, the OIF has formed a partnership with the ECOWAS Investment and Development Bank, a regional financial institution based in Lomé, whose shareholders comprise the 15 State Members of the Economic Community of West African States (ECOWAS).

The OIF's guarantee fund is open to all credit institutions in the beneficiary countries. The guarantee applies to short- or medium-term loan operations in the following sectors of activity: film and audiovisual production and distribution; technical industries relating to the cinema, audiovisual and music, radio and television; the print press; music and phonogram production; publishing, production and distribution of books and printing works; publishing and production of cultural or educational multi-media content; theatre and live shows; operating cinemas; theatres and shows; arts and crafts; visual arts and fine art; and fashion, crafts and design that have an artistic or cultural element.

Eligible operations are loans, leasing operations or bank securities that may be granted to eligible enterprises. Credits through bank overdrafts are excluded. Funding is guaranteed for tangible or intangible investment projects, production projects and the acquisition of enterprises. Operations related to working capital increases are eligible when they form part of an investment or development project.

The OIF has helped to set up guarantee funds in target countries, by taking additional action to ensure their success. This mainly includes:

– the organization of training seminars for bank managers on financing and economic and financial analysis of risks inherent in cultural enterprises and projects in order to improve bankers' ability to analyse cultural projects submitted for funding;

– the organization of training seminars for promoters and company managers in cultural sectors on project formulation and on the management of cultural enterprises: one of the main obstacles to accessing financing and to the development of cultural enterprises in the countries in question is the difficulty experienced by company managers in drafting, submitting and defending their projects for consideration by financial institutions;

– the conduct of socio-economic studies on the situation of cultural sector enterprises in the countries in question. The aim of this study is to paint a picture of the various cultural sectors in the countries concerned, that will enable the various economic players (bankers, fund managers, cultural promoters, civil servants and authorities and international organizations) to understand the context in which these activities are being carried out, the potential of the sector, the main advantages and drawbacks and, generally, the situation of enterprises operating in those sectors.

3.2 Main results[9]

FGIC Morocco as at 2 October 2009
Number of credit operations against guarantees: 19
Outstanding risk: €678,791.29 corresponding to around €4,639,325.40 in credit. The operations counter-guaranteed mainly concern, on the one hand, the financing of technical equipment and material and, on the other, real estate financing for fitting out premises. Three activity sectors were involved – printing, radio broadcasting and film production.

[9] Internal activity report of the FGIC produced by the OIF. January 2010.

FGIC Tunisia as at 31 August 2009
Number of credit operations guaranteed: 7
Net outstanding risk: €173,318 corresponding to €350,196.59 in credit. Operations guaranteed are medium-term loans and were for tangible investments (purchase of equipment and fitting out of premises). The outstanding risk is split among four activity sectors: film and audiovisual production, the press, information technology development and theatres.

FGIC West Africa as at 31 August 2009
OIF funds disbursed: €615,000
Number of credit operations guaranteed: 7
Outstanding risk: €485,231.50 corresponding to €880,166.29 in loans. Operations guaranteed are for medium-term loans and were for tangible investments in the following sectors of activity: film/audiovisual, television broadcasting, printing, music and fashion.

Since the three guarantee funds were put in place, 213 bank managers in the countries in question have been trained in risk analysis of cultural projects and companies and their awareness has also been raised on the potential and the specific features of cultural industries.
For cultural entrepreneurs, 516 have been trained to compile a full funding application for submission to financial institutions and to use key management tools (project formulation and monitoring, formalization of financial management, accounting, business plan and formalization of contracts).

VI. INTERNATIONAL COOPERATION ISSUES TO BE EXPLORED

International authorities are realizing, increasingly, that cultural sectors of activity constitute dynamic drivers behind the new economy and that they contribute, in the same way as manufacturing industries, to the economy of a country or region. In this area, countries of the South are indisputably at a comparative disadvantage compared to countries of the North, and cannot thus tap their culture's potential for development. Many difficult issues are involved, which take different forms, such as non-existent public policies, an ill-adapted regulatory framework, difficulties in accessing financing (commercial and non-commercial), poorly structured activities and channels, lack of infrastructure and inadequate professional training.
In the same way as enterprises in other industrial sectors, cultural enterprises in countries of the South need a variety of tools to support and sustain their development. For that purpose, they must be able to rely on public policies and on customized financial instruments that factor in their unique characteristics. From that point of view, international cooperation has a major role to play, which could be performed by implementing at least four complementary steps.

1. Inclusion of cultural sectors in cooperation and development policies

Despite its fundamental role in the construction of a socio-economic entity, culture is not systematicaly given priority in development policies and strategies. Cultural activity sectors suffer, in a large majority of countries, from woeful neglect on the part of economic decision-makers and national politicians. Over and above these decision-makers, the various instruments of international cooperation have not yet adequately integrated the cultural dimension into their development aid policies and strategies.

The lack of acknowledgement of cultural sectors in development strategies accounts in part for the lack of appropriate regulations in these sectors and for the provision of so little, and in many cases practically non-existent institutional support to promote the existence and meet the development needs of cultural enterprises.

Clearly, much more thought must be given to the manner in which the various international co-operation players (such as cooperation agencies, development partners and international financial institutions) can efficiently integrate the cultural component into the drafting and negotiation of their development aid policies for countries of the South.

2. Access by governments and cultural companies to international financing

Access to financing is an essential condition if cultural activities in developing countries are to thrive. Financing is indispensable to governments if they are to make the basic investments (infrastructure and professional training centres) that are necessary for creating conditions that will facilitate the smooth running of cultural activities. Furthermore, enterprises should be able to rely on a variety of financial tools in order to help them grow. For the latter, several options can be envisaged.

- Specific credit lines
Some development partners already provide low-cost credit lines (or refinancing) to the existing funding systems in countries of the South to enable commercial banks to distribute loans nationwide (following the example of the European Investment Bank), in order to promote the financing of specific categories of projects or companies. Reflection could be based on the idea of reserving some of these resources specifically for cultural enterprises. These credit lines would come from the redirection of a small percentage of existing credit lines or from new resources, given the relatively modest amounts involved compared with other sectors of economic activity. These credit lines could be managed by the regional development financial institutions. Beneficiary commercial banks would undertake to set up a unit within their banks, dedicated to cultural sectors, in order to build up know-how in the field of financing cultural enterprises, which is sorely lacking today.

- Endowment of a guarantee fund
Access by cultural enterprises to bank financing could also be facilitated by the setting up of a guarantee fund dedicated specifically to credit operations linked to the activities of cultural enterprises in countries where similar mechanisms do not exist. For countries where such systems are already in place (countries covered by the OIF's *Fonds de Garantie des Industries Culturelles*) consideration could be given to the provision of additional funds in order to build their capacity to provide support. The formation of a guarantee fund dedicated to enterprises operating in cultural sectors would provide a response to the problem of high risk, as this is perceived by financial players. In addition to developing a financial tool for use by lending institutions and in order to encourage the latter to finance these sectors of activity, a guarantee fund could make a key contribution to raising the awareness of economic operators of issues relating to cultural enterprises.

- Facilitation of access to funding for cultural enterprises in the target countries should go hand in hand with measures designed, on the one hand, to improve visibility of cultural channels in the countries in question through the collection, updating and distribution of data and, on the other hand, to accumulate expertise on these channels by financial institutions.

- Furthermore, funding sources, aid programmes and the support provided for cultural sectors by international organizations are numerous and difficult for economic operators to identify. Consideration should also be given to the establishment of an online database providing information on the various aid, grants, support or financing programmes dedicated to enterprises operating in cultural sectors. Such a database would also enable all bodies working to develop cultural sectors (international institutions, governments and regional organizations) to appraise the status of funding in this area and thus formulate, in full awareness of the facts, comprehensive cultural policies.

3. Improvement of the regulatory framework for cultural activities

Funding is a necessary, but not a sufficient, condition for the development of cultural activities if the regulatory environment is inadequate. Countries must undertake to formulate and implement real public policies on the structural organization of the cultural sectors. For example, piracy of cultural production, which is rampant in many countries, is a major stumbling block to the structural development of these sectors. Piracy is a major risk and the cultural entrepreneur is hard pressed to provide financial players with reassurances in a context in which there is no real national and/or regional strategy to combat this scourge.

Moreover, in many sectors of cultural activity, bank funding must be structured into other forms of financing which, at this stage do not yet exist. Some activities will achieve financial balance, even make profits, only if financial support policies (repayable advances, grants, tax breaks, patronage, etc.) are introduced by the State authorities and/or the population's disposable income is increased.

The improvement of the regulatory framework for cultural activities is a major responsibility for countries, but international co-operation organizations can and must work together with governments that seek their assistance in this area.

4. Strengthening of the managerial capacities of entrepreneurs in cultural activity sectors

The problems experienced by cultural entrepreneurs in drafting, submitting and defending their projects before financial partners are an obstacle to their access to bank funding and, generally, to the development of their enterprises. The much desired introduction of financial instruments specific to the cultural activity sector should go hand in hand with reflection on assistance to cultural companies in countries of the South to enable them to build their managerial capacities.