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Study on alternative and innovative funding mechanisms for ACP Cultural industries

Final Executive Summary

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Introduction

Supporting the growth and industrial development of the cultural industries is considered to be of increasing importance as the ACP economies work towards diversifying away from traditional export activities such as commodity exports and exploiting the opportunities in new trade arrangements like the EU Economic Partnership Agreements. Investment in the cultural industries also presents other benefits such as the cross-fertilization and promotion with other sectors like tourism, manufacturing and ICTs. There is also scope for exploiting destination branding and intellectual property thereby generating value-added flows and sustainable jobs and enterprises that are associated with the rise of the creative class.

International best practice suggests that building competitiveness of creative industries firms needs the establishment of adequate access to finance. The financial mechanisms covered by the study fall within the private sector (institutional, individual, collective and entrepreneurial) and the public sector (policies and mechanisms in the fields of culture, trade and tax).

The study will analyze the issues and challenges of access to finance by ACP cultural and creative sectors. It also aims to formulate recommendations to policymakers, partners and investors, useful in the formulation of the cultural sector support strategies.

The areas of financing targeted in this study are:

- Grant funding (i.e. direct support mechanisms)
- Seed funding for start-ups
- Cluster, incubator funding including crowdfunding
- Debt financing
- Equity financing e.g. angel investing
- Export financing
- Indirect and complimentary measures such as tax incentives and rebates

Methodology

The ACP is a heterogenous grouping with large populations among many of the African member states whereas the Caribbean and Pacific regions are predominated by small-island developing states with small populations and thus small internal markets. There is also wide income disparity and level of global integration into global markets among the ACP grouping with high trade/GDP ratios among ACP SIDS when compared with African member states many of which are Least Developed Countries. One of the key challenges with the study is accessing comparable data on the economic performance and the role of financial instruments of the creative sector across the ACP regions.

The following data collection methods were employed on a phased basis:

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- Desk Research – Data on the cultural industries funding mechanisms will be gathered by online and offline research, including websites, literature and other sources.
 - Questionnaire to ACP Ministries (i.e. Culture, Trade) and other stakeholders in order to collect data on existing measures and incentive policies.
 - Semi-structured oral interviews with relevant concerned stakeholders.

Africa Funding and Financing

The policy context for financing and business and trade support in Africa is quite diverse and dynamic. In terms of the latter there are a range of policy initiatives. In the area of trade policy one of the key concerns is that of tariffs on imported equipment. Tariff levels tend to be high, for example, the duties on phonographs is 140%, 100% on book making machinery, and 70% on imported equipment and instruments. There is also the challenge of non-tariff measures such as high entertainment taxes which average 40%. These challenges are further compounded by intense competition from imports weak intellectual property rights and poor access to financing.

These issues suggest that there is much scope for alternative and innovative funding/financing mechanisms. This has been signaled in the OAU Cultural Action Plan – Priority Area 5 – seeks to create an investment and financial system, in collaboration with banks, geared towards the cultural industry. Grant funding is generally commonplace however it is often not directed towards commercial orientation or export development. Funding is also being made available to assist entrepreneurs that participate in international events, for example, mobility grants.

One of the related challenges facing the sector is **the absence of data which could be used as basis for business and strategic planning**. In such a scenario it is quite difficult for emerging entrepreneurs and small firms to access credit from traditional sources when there is little or no access to economic and marketing intelligence which could be used to justify investments and assess potential return on investment.

This issue is of supreme importance because the predominant mode for funding is directed at grants for non-commercial activity, principally. This point is made in an UNCTAD study of the creative sector in Zambia where they argue that “as in the great majority of countries, the cultural and creative industries are heavily dependent on public funds and incentives, mainly because traditionally they have been seen predominantly from a cultural rather than a commercial point of view.” The study goes on to elaborate that outside of the grant funds offer by the National Arts Council in Zambia access to financing is virtually non-existent.

- In response to the limitations of the existing frameworks of local and external funding one of the key recommendations has been for the **establishment of microfinancing targeted at SMEs and start-ups**. The Dutch Doen Foundation has established a diverse portfolio of

financing and facilitation with funding to industry organizations, SME funding in East and South Africa, along with screenwriters labs in East Africa. African banks such as the Nigerian Import Export Bank (NEXIM) and the Cultural Bank of Cape Verde have also specialized in providing loans and other funding schemes to entrepreneurs in the creative industry allowing for longer payback times and concessionary financing. The NEXIM bank has a facility targeted at the cultural/creative sector entitled Nigerian Creative Arts and Entertainment Facility Loan.

- Another interesting financing programme is the **Cultural Industries Guarantee Fund (CIGF)** which was created by the International Francophony Organisation (IFO) in Lomé in 2003 to facilitate the access of cultural enterprises in West Africa to bank financing for cultural projects. The Guarantee Fund was initially established in five francophone West African states: Burkina Faso, Côte d'Ivoire, Mali, Senegal and Togo. Management of the funds are entrusted to the ECOWAS Investment and Development Bank (EBID) which is based in Lomé, Togo. On September 14, 2009, the IFO and the EBID signed a memorandum of understanding and agreed to increase the capital of the CIGF to €1 300 000, which includes a contribution of € 650 000 from EBID. They also agreed to extend coverage to all fifteen ECOWAS member states. The CIGF guarantees financing for projects costing between \$ 1 million CFA francs and 155 million CFA francs.

- **Crowd funding** has emerged as an innovation providing financial support for SMEs. Crowdfunding, for the creative sector is estimated to account for approximately twenty percent of total funds collected. The types of projects that fall under the creative and innovation campaigns range from films and videos, arts performance and events, design, publishing and other projects. Another example of a crowdfunding programme that targets the creative sector is that of CitySoirée which is an arts and entertainment platform that crowdfunds musicians for private live concerts. CitySoirée is estimated to be ranked the 11th top crowdfunding fundraiser in Africa.

- One of the key examples which addresses the problem of building market synergies and is worthy of replication in other regions is the **HEVA Fund** which operates out of Kenya and is being offered across East Africa. The HEVA Fund catalyzes the growth strategies of early stage ventures, optimizes creative sector value chains, provides working capital and cash flow solutions as well as offers a bridge to follow-on financing for creative sector SMEs. HEVA has a fund targeted at start-up firms and a growth fund for more established firms. An example of HEVA's work in market integration is the investment in the fashion value chain where HEVA invested in 6 Kenyan fashion businesses with the goal of expanding their commercialization potential.

Caribbean Funding and Financing

Facilitating access to finance is a key element of the enterprise development process in the Caribbean. In an IDRC commissioned study of 2012 which focused on creative entrepreneurship

in Barbados, Jamaica and Trinidad and Tobago it was identified that **own-resources or self-financing** were the main source of investment for most enterprises. In most cases it is equity financing from family, friends and colleagues that are the main source of finance particularly for emerging artists as well as small and startup companies. **The next biggest sources of financing came from reinvestment, loans, grants and new investors.** The key highlight that differentiates one country from another is that loans were more important in Barbados and grants in the case of Jamaica. Reinvestment was relatively low in the case of Trinidad and Tobago.

- From a trade facilitation standpoint **business support organizations play a critical role in minimizing some of the risk associated with the creative sector by offering a range of financing services that could include market development grants, export assistance grants, business competitions as well as reimbursable grants.** The Caribbean Export Development Agency (CEDA) offers a range of services along these lines. For example, the CEDA provides a Direct Assistance Grants scheme targeted at SMEs across the region and for multiple export sectors. The share of funds allocated to the creative industries has been relatively small in most territories averaging five percent across the board. The countries with the highest shares for the creative industries were St. Lucia, Barbados, St. Vincent, Haiti and Jamaica. These financing and supporting trade services help emerging firms to structure their business propositions at an early stage, for example, through the requirements of having a business plan or a feasibility study. This is important to note, as the DAGs are one of the main sources of alternative financing targeted in part at the creative industries.

- Other innovative options that apply to firms with some track record is a "**pre-sales agreement**" which either facilitates a direct payment from a distributor at a discounted rate or allows the firm to use the contract as collateral for a loan with a bank. This approach to financing is an emerging option among national development banks and other financial institutions.

An example of the execution of this approach is evident in the loan portfolio of the Trinidad and Tobago EXIM Bank. The EXIM Bank uses sales contracts for firms in the film, fashion and music/media production industry as a form of collateral for financing working capital in the last three years. The EXIM Bank has disbursed a total of US\$ 2.3 million to thirteen projects: 5 in film; 3 in fashion; and 5 in music/media productions.

- Another avenue open to established firms in the audiovisual sector is **tax incentives from overseas or on-location shoots.** Various cities and governments offer tax rebates for filming in a particular destination, which often helps to brand a tourism location. The tax rebates relate only to the local expenses such as employment of local actors, rental and use of local equipment purchase of local goods and services. Trinidad and Tobago attracts a number of film projects to shoot on-location. The EXIM Bank has used the film rebate as a source of collateral and has granted loans to the tune of 80% of the value of the rebate.

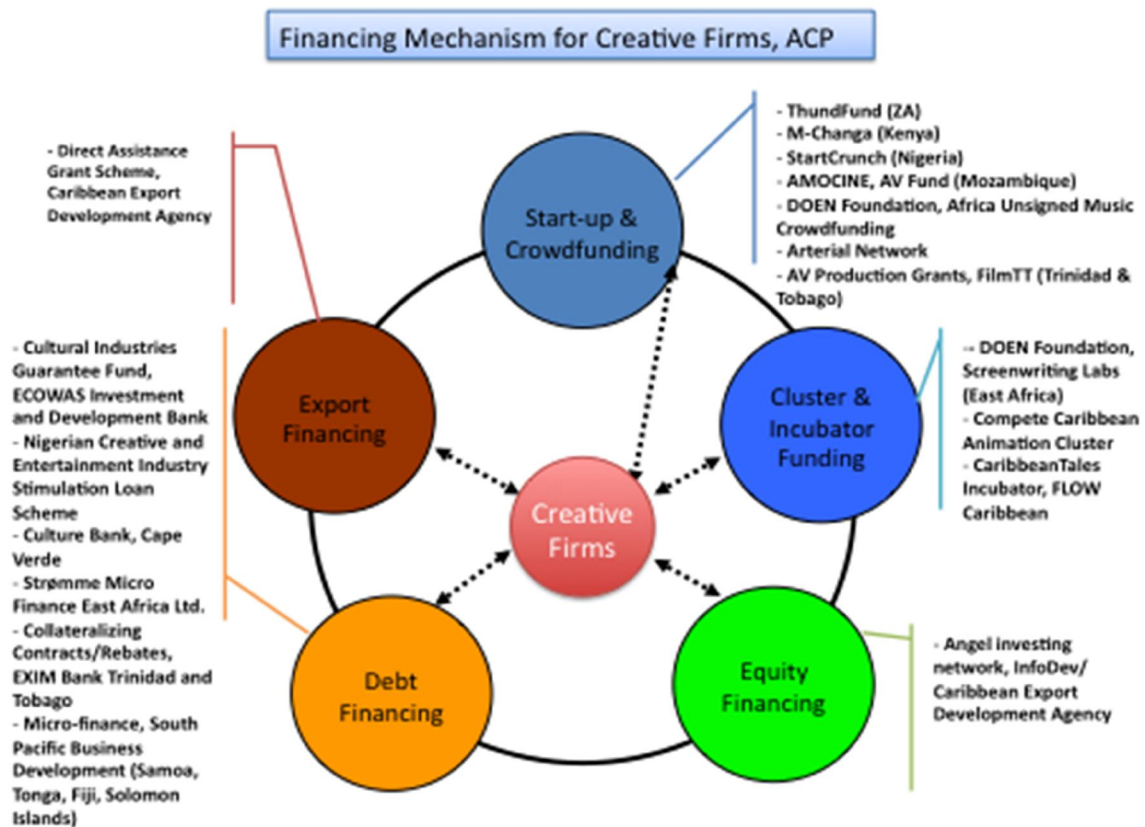
Pacific Funding and Financing

The creative sector has attracted increased interest from the international donors community. Organizations like AusAid, New Zealand Aid and the European Union have identified the creative sector as a potential area for economic diversification and tool for development. International donors and agencies have targeted the creative sector as a medium for socio-economic development, however, lack of infrastructure, education and supporting institutions hinder most countries' ability to fully develop the sector. It is interesting to note that territories like French Polynesia and Guam have much more support from mainland than self-governing countries who have continued to prioritize cultural preservation over the development of a commercially viable sector.

Financing options for the Pacific islands, especially the self-governing ones, is difficult. The lack of bank-worthy collateral has been said to be the most difficult while public subventions towards culture continue to dwindle. One major supporter of the cultural industries is the South Pacific Business Development Ltd which offers microfinancing and crowdfunding in several Pacific territories (e.g. Samoa, Tonga, Fiji, Solomon Islands). The SPBD provides small, unsecured loans of around US\$400 to groups of rural women, who invest these loans into businesses based on their existing livelihood skills. They are provided with training and ongoing business coaching. The SPBD has also partnered with online organizations which facilitate crowdfunding which allows the public and diasporic communities to fund lending.

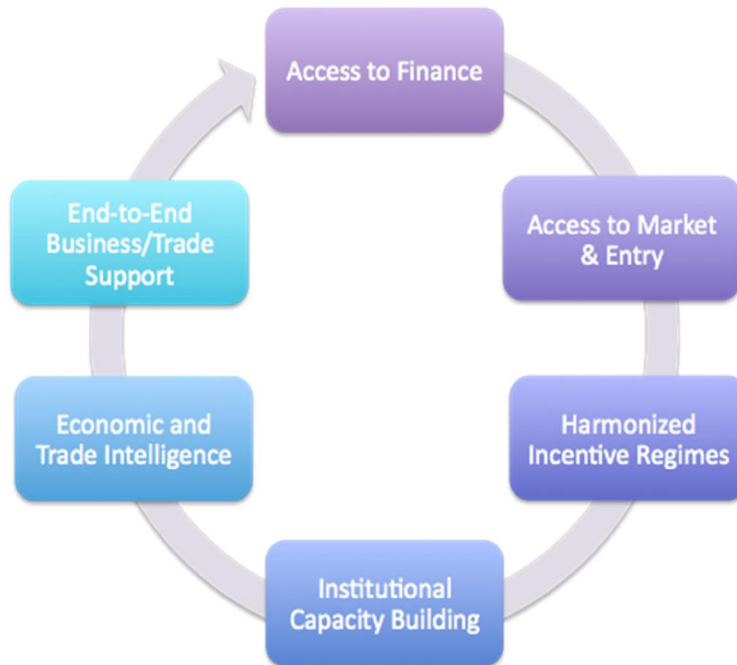
Overview and Assessment

What is evident is that there is an array of financing schemes and mechanisms in operation. What is illustrated in the below figure is the financing scenario in the five core areas of start-up and crowd financing, cluster and incubator funding, equity financing, debt financing and export financing. With the exception of a few programs (e.g. Caribbean Export, South Pacific Business Development, DOEN Foundation, HEVA Fund) the funding and financing is largely focused on the national level.



As such the scenario for funding and financing is highly variable by country and region. These programmes and mechanisms do offer opportunities to creative entrepreneurs in a context where there are few other options. However, these types of funding tend to be **sporadic one-off investments that lack the required sustainability and transferability if an industry is to be generated**. They also don't offer end-to-end facilitation which takes producers to the marketplace. As such it can be argued that **the provision of long-term, market-oriented business facilitation is the missing dimension in the funding/financing scenario**. The notion that all the creative requires is funding and financing is a misnomer in that international best practice suggests that the sector requires the facilitation of a wide range of

services focused on industrial upgrade and market penetration to make the investments pay-off. This is the crux of the matter and the above analysis suggests that status quo management or tinkering around the edges will not generate significant benefits.



The **key challenges identified in the case studies** are:

- The return on investment tends to be low with a few exceptions hence the perception of high risk.
- Access to finance is a critical challenge but it is not a standalone issue.
- Most financial institutions do not have a suitable framework for creative industries.
- Ad hoc incentive regimes with little or no monitoring of performance or relevance are having limited impact.
- Most countries have weak industrial and export capabilities which constrain investment.
- Limited distribution is a key challenge across all sectors and all ACP regions.

Assessment and Key Recommendations

1. Incentive measures promoting indirect public funding

There are no sources that collate data on the range of incentive measures within the ACP regions. The UNESCO Convention has instituted a reporting process for member countries to supply this information in a systematic way through the quadrennial reporting structure.

In general it is observed that the incentive mechanisms are not being monitored in terms of performance and contribution to the industrial upgrade of the sector. The available evidence suggest that the incentives are having a limited impact on the sector except in the area of the audiovisual sector where incentives are facilitated by the institutional capacity of film commissions that are able to attract foreign firms for on-location filming. The film commissions also promote domestic entrepreneurship through production grants. This illustrates the point that incentives are more successful if they are related to global outreach, export marketing and enterprise development. From this standpoint **incentives should be part of an integrated industrial and innovation policy rather than a stand-alone measure.**

Key recommendations:

- Integrate incentives schemes into wider industrial and innovation policies.
- Strengthen the public awareness campaigns for incentive schemes to improve the uptake of the mechanisms.
- Governments should establish mechanisms to monitor the performance of incentive schemes and adjust them accordingly.

2. The involvement of banking institutions in funding culture

The role of banking institutions has been generally limited because traditional banking modes of operation do not provide an adequate framework for facilitating access to finance. Traditional banking structures require forms of collateral that do not take into account receivables or intellectual property and other forms of intangible capital as forms of collateral. Repayment periods (e.g. monthly repayments) also tend to be inflexible and not in keeping with the flows of income in the creative sector. In addition, firms in the sector require business support services that are outside of the remit of commercial banking. The tradition of risk averse banking can be ameliorated through the provision of credit guarantee schemes like that offered by CIGF in West Africa. In this way commercial banks can play a more critical role in building a financial ecosystem that allows for affordable and flexible financing. The key advantage that commercial banks offer is their wide geographic dispersal and range of banking services.

Key recommendations:

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- Establish credit guarantee schemes among regional and development bank banks which can be implemented by commercial banks.
 - Provide training for commercial banks and development banks on how receivables and intellectual property can be used as forms of collateral.
 - Institute flexible repayment schemes among regional, development and commercial banks.

3. The extent to which private investment supports the ACP cultural sector

Private investment by creative entrepreneurs is the main source of financing of the creative sector. In most countries own financing accounts for as much as 80 – 90% of the financing. This is particularly the case for start-up firms and early stage operations. The firms that have a successful track record are able to access traditional forms of financing once their accounting and business planning conforms to banking requirements. Corporate investment from outside of the creative sector is an important are of financing but largely relies on business sponsorship from large local firms (e.g. breweries) and from transnational companies (e.g. telecoms operators). In the most instances the form of business sponsorships are focused on promotional initiatives of the sponsors and do not directly focus on industrial development or market expansion.

Key Recommendations:

- Provide training for creative entrepreneurs on accounting and business planning.
 - Provide training on how to prepare proposals for corporate sponsorship.

4. Mixed funding models

Creative entrepreneurs require multiple and mixed forms of funding depending on stage of development:

- Early stage or start-up firms need seed capital and grants funds to kick start there businesses
- Cluster financing is need to facilitate economies of scale and scope and to foster learning and collaboration among firms
- Debt financing is attractive to established firms that have a track record and export capabilities
- Equity financing and angel investing are favorable to established firms that have a track record and export capabilities
- Export financing is key to achieve market penetration

Key recommendations:

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- Establish start-up and grant funds targeted at young entrepreneurs.
 - Promote cluster programmes targeted at specific sectors.
 - Institute credit guarantee schemes among regional, development and commercial banks to increase the affordability of debt financing.
 - Facilitate the growth of angel investing networks for creative enterprises.
 - Expand funding access for creative enterprises among export development and promotion agencies.

5. The impact of crowdfunding

Crowdfunding has significant growth potential once countries are able to build trust in online financing and achieve a higher level of ecommerce and online personal banking.

The growth of crowdfunding is most notable in Africa. There are several crowdfunding platforms that target the creative sector and it is estimated that 20% of the funds raised are dedicated to creative and arts related projects. The experience of Africa is not as yet replicated in the Caribbean and the Pacific. These are smaller societies and the crowdfunding modality has not taken off as yet.

Crowdfunding success also requires the operators to tap into the diaspora market. It is here where there is greater demand for crowdfunding activities as this market generally has a higher level of access to online banking services and greater familiarity with crowdfunding models.

Key recommendations:

- Promote crowdfunding operators through the provision of matching funding programmes.
- Promote training on digital entrepreneurship among creative enterprises.
- Crowdfunding firms should target diasporic communities as part of the marketing campaign.

6. Innovative solutions implemented by organisations for increased economic profitability

The innovation in financing comes from restructuring the requirements for financing to include factors that would allow for derisking investment. The implementation of innovative financial mechanisms should also take into account the different business models of the various sub-sectors in the cultural and creative industries. For example, music, festivals, audiovisual, fashion and publishing sectors have had longer and more established forms of commercialization and consequently enjoy more favorable access to financing as compared with the performing arts and new areas like animation and new media.

Given the limitations of traditional banking systems there is a clear need to explore mixed and alternative funding models.

Key recommendations:

- Promote the use of intellectual property as a mode of collateral among banks.
- Promote the use of receivables and sales contracts as a mode of collateral.
- Institute the use of rebates as a mode of collateral.
- Encourage banks to provide longer-term repayment periods.
- Encourage flexible repayment installments, for example, allowance for bullet installments.
- Establish low interest loans under written by development banks.
- Establish credit guarantees from development banks which can be accessed through commercial banks.

7. To what extent do the identified innovative and alternative funding mechanisms provide sustainable support to the sector?

A key issue in the sustainability debate is that most creative entrepreneurs require more than access to finance to be successful. They need access to market and market integration support to achieve market penetration. As such sustainability comes from creating end-to-end business and trade support. Most of the financing mechanisms operate as stand-alone programmes and consequently do not achieve the desired level of sustainability in the sector.

Key recommendations:

- Improved access to finance should be twinned with access to market.
- Facilitate innovative financial instruments to attract and sustain investments.
- Harmonize and update incentives and trade regimes.
- Strengthen export, distribution & institutional capabilities and linkages.
- Facilitate end-to-end business and trade support.
- Generate economic and market intelligence.
- Access to finance needs to be linked to a process of business coaching.

The overarching recommendation is that **the framework for financing should include trade governance**. It is premised on the above analysis that finance by itself will not be sufficient to achieve the required transformation. **The recommendation is that end-to-end services in the above listed seven identified areas are needed and that this should be provided at a regional level to achieve critical mass.**

In terms of an action and implementation plan for the creative sector in the ACP it is recommended that the following modes of financing be instituted at the regional level, for example, through regional development banks and regional industry associations or agencies

that can play such a role. It is also envisaged that the best practices from among organizations operating in the ACP can be replicated and transferable to other regions and institutions.

- In the areas of start-up funding, crowdfunding, clusters and incubators this report is recommending the adoption/adaptation and replication of the best practices of the HEVA Fund (Kenya and East Africa), Compete Caribbean.(Caribbean), the South Pacific Business Development limited and the programmes of the Doen Foundation in East and Southern Africa.
- Regional development banks can facilitate debt and equity financing including by offering credit guarantees that could be executed through commercial banks. The ACP financing agencies whose best practices are recommended for adoption/adaptation and replication are the Cultural Industries Guarantee Fund (West Africa), NEXIM Bank (Nigeria) and EXIM Bank (Trinidad and Tobago).
- This report recommends that the area of export financing can be facilitated through export promotion agencies which are to be found in most countries and regions in the ACP. An example of best practice is that of the Caribbean Export Development Agency that facilitates export promotion among creative enterprises in the region.

Recommended Financing Mechanism	Transferable Institutional Models Operating in the ACP
<ul style="list-style-type: none"> • Start-up funding, crowdfunding, microfinance, clusters & incubators should be facilitated through regional or industry associations. 	<ul style="list-style-type: none"> • HEVA Fund (Kenya and East Africa) • Compete Caribbean (CARICOM) • South Pacific Business Development Ltd (Pacific) • Doen Foundation (East Africa and Southern Africa)
<ul style="list-style-type: none"> • Regional development banks can facilitate debt and equity financing including by offering credit guarantees which could be executed through commercial banks. 	<ul style="list-style-type: none"> • Cultural Industries Guarantee Fund (West Africa) • NEXIM Bank (Nigeria) • EXIM Bank (Trinidad and Tobago)
<ul style="list-style-type: none"> • Export financing can be facilitated through export promotion agencies 	<ul style="list-style-type: none"> • Caribbean Export Development Agency

Conclusion

The report examines the scope for promoting alternative and innovative funding and financing mechanisms in the ACP. The focus has been identifying best practices employed within the

ACP regions that have replication value throughout the ACP. The report looks at the multiple forms of funding and financing that have been categorized into five key areas (e.g. start-up funding and crowdfunding, cluster funding, debt financing, equity financing and export financing). What is observed is that there is much diversity in the types of financing mechanisms in the ACP by country and also across sub-sectors. There is much differentiation among ACP countries and regions depending on the depth of creative entrepreneurship and financial infrastructure. As such there is no one size that fits all countries or all sectors. **What is recommended is a regional approach to ensure the sustainability of the proposed programmes.** Regionalism allows for the creation of creative hubs in countries that are the most advanced in the respective regions. **A sectoral approach is also recommended** given that each sub-sector has its own business models, value-chain modalities and modes of market entry. The key recommendations are considered implementable given that the report is not calling for the creation of any new institutions. What it does call for is greater collaboration and synergies between existing institutions. From this standpoint the **key innovation being proposed is that of achieving critical mass in each of the respective ACP regions.** This is a trend that is observed and the report is suggesting that there is scope for accelerating and further systematizing such approaches. Implementing such initiatives has a strong potential to improve the profitability and sustainability of the cultural and creative sector in the ACP.