GROWING THE PIE

Alternative Financing and Canadian Documentary

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DOCUMENTARISTES DU CANADA

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The Documentary Organization of Canada/ l'Association des documentaristes du Canada (DOC) is the collective voice of independent documentary filmmakers across Canada. DOC is a national non-profit arts service association representing over 800 directors, producers and craftspeople in the documentary community, from all provinces and regions of our nation. DOC advocates on behalf of its members to foster an environment conducive to documentary production and strives to strengthen the sector within the broader film production industry.

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INTRODUCTION

The lament heard from DOC members across the country for the last five years has been: "The funding model for documentary one-offs and features in Canada is broken!" The crucial question is *why* this is so. This report advances that the root cause is because the traditional funding model in Canada is tethered to broadcaster participation, and broadcasters have sharply reduced the number of one-offs and features they license.

Documentary producers cannot properly assemble a project's financing without the one player whose involvement triggers the remaining funding. Other factors have contributed to the decline of documentary production volume, including consolidation in the broadcast market, which has reduced the number of buyers, and the proliferation of reality and lifestyle programming, which has usurped the place of documentary content. The impact of these changes is most evident in the one-off and feature formats.

Searching for other means to assemble a project's financial structure, producers are becoming more entrepreneurial. New tactics include seeking investments on world markets, attracting investors by approaching the business of film production through a slate of projects (i.e., as opposed to a single production), and even turning their director/producer status into a brand that can attract investors. Meanwhile, the growing popularity of crowdfunding has created an underlying and misguided expectation that *all* projects will successfully be able to turn to Kickstarter or Indiegogo to secure the necessary financing.

Yet what, exactly, is meant by "alternative" financing? Where does a producer find other sources of financing? What happens if they successfully obtain it? Are the amounts significant? What is the impact of bringing a non-traditional funder on board? What incentives can producers offer when seeking out non-traditional sources of funding? And can documentary attract investments in a manner that other genres can't? This report surveys the terrain to explore these pressing questions while not always answering them. Furthermore, it paves the way for an industry-wide dialogue to explore the questions it raises in greater depth.

In this report, "alternative financing" as a term designates crowdfunding, foundation and NGO investment, private equity and corporate branding.

While “alternative financing” might be a misnomer—except for crowdfunding—all the other means above do fall under the category of non-traditional financing for our purposes of defining the terms here.

Whether one speaks of “alternative” or ”non-traditional” financing now, the documentary that is fully supported by alternative financing is *extremely rare*—unless the project’s budget is quite modest. The case studies in this report demonstrate that producers are turning to alternative methods of financing primarily to address gaps in project financing, and therefore must blend alternative and traditional funding sources. Within that mix lies many a headache.

The primary focus of this report is on up-front financing, but the findings point to how interconnected production, financing and distribution are in practice. In the case of documentary, self-distribution is increasingly being used to monetize productions. Producers, especially via crowdfunding and social media, are building their audiences, and if done judiciously, self-distribution, though time-consuming, can put money in a producer’s pocket.

For readers seeking a hidden funding treasure in this report, we must disclose that there are none to be found. Producers have left no stone unturned when it comes to finding funding for their projects, and they devote considerable time and effort to securing these investments. If a producer successfully obtains non-traditional investments, he or she then must navigate a complex administrative and regulatory environment, all of which can add considerable time and expense to a project. Still, as the reader will find, while all of the producers point to hurdles they overcame, they also outline the benefits of seeking new ways of doing business. Whether the benefits are on the creative or business side, they represent a silver lining to the challenges.

With this report’s findings in hand, industry stakeholders have the opportunity to come together and answer the important questions it raises:

- If documentary producers are to be competitive here and on the world stage, how can funding sources be diversified and aligned with current regulatory and administrative processes?
- In a market where audience demand manifests itself on multiple platforms, what might act as an alternative to the “broadcaster trigger?”
- What incentives could be introduced to spur economic activity in the film-making sector?

Canada has a rich documentary heritage, pre-dating the founding of the National Film Board of Canada 75 years ago. DOC members feel so strongly about the genre’s contribution to this country’s cultural fabric that they have pushed to declare it Canada’s national art form! Thus, with the next 75 years of documentary production in mind, let’s transform this “broken funding model.”

Lisa Fitzgibbons
EXECUTIVE DIRECTOR

EXECUTIVE SUMMARY

Today the documentary industry in Canada faces serious challenges. While government subsidy systems are still in place, the advent of digital means of production and distribution has severely disrupted the traditional marketplace. Concurrently, vertical integration and consolidation in the broadcasting environment, combined with changes in the regulatory framework, have led to an overall erosion of the documentary financing system.

Drawing from both *Getting Real 5*,[1] which covers fiscal 2010/2011, and *Profile 2012*,[2] which covers fiscal 2011/2012, we see there has been a decline in the volume of documentary production in Canada. At the end of fiscal 2010/2011, the volume of the sector was at $390M, which is $100M less than fiscal 2008/09.[3] Meanwhile, theatrical documentary production volume, the smallest segment, fluctuated between $9M and $21M per year during the same time period, but it failed to reach the high watermark of $24M set 10 years ago in 2003/04.[4]

Canadian funding sources once included non-broadcast options, but the traditional financing system currently in place for feature documentaries is now triggered exclusively by either broadcasters or distributors. When producers secure a licence from a broadcaster, they become eligible to seek support from other funders and agencies, and to apply for both federal and provincial tax credits. However, with an enhanced emphasis on other television formats and genres, documentary licence fees from English-language private broadcasters fell 37% between 2008/09 and 2010/11.[5]

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1 Documentary Organization of Canada, *Getting Real 5*.
2 Canadian Media Production Association, *Profile 2012*.
3 Documentary Organization of Canada, *Getting Real 5*, p.27.
4 Canadian Media Production Association, *Profile 2012*, p. 23.
5 Documentary Organization of Canada, *Getting Real 5*, p. 53.

This decline in television commissions has some documentary producers scrambling to keep their businesses afloat. The content is still important, and audiences are more receptive than ever, as evidenced by the popularity of documentary festivals.[6] Yet filmmakers argue that the conventional funding model is broken. While some are lobbying for changes to the system and some are exiting the industry entirely, others are exploring alternative means of financing.

Looking to other jurisdictions, sectors and technological advances for inspiration, entrepreneurial producers are finding creative solutions to their financing challenges. These stories offer both hope and frustration. With each new method attempted, regulatory issues threaten to suppress innovation and economic activity.

MODES OF ALTERNATIVE FINANCING

The Documentary Organization of Canada (DOC) survey, case study analysis, literature review and numerous consultations have revealed four main categories of alternative financing, plus a handful of other means. These methods of documentary funding all operate either outside of, or in tandem with, the Canadian broadcaster-driven model. In particular, this report examines:

- Crowdfunding
- Foundations
- Private Equity
- Corporate Branding

From a fringe activity spurred by social networking only a few years ago, crowdfunding has evolved into a robust industry, one that has generated great traction in the documentary sector. In 2012, $1.6B was raised in North America across all industries through crowdfunding.[7] This act of collecting small amounts of money from large groups of people fills gaps in production budgets—crucially, it also builds audiences. Yet this report found that the amounts raised are modest, and crowdfunding, while popular, is no substitute for conventional financing.

Of specific interest to documentary filmmakers are foundations, given that a film's subject and a foundation's mandate may dovetail. In the United States, foundations are a major source of mission-related documentary financing. Between 2009-2011, American foundations awarded $1.86B in media-related grants.[8] Although there are forward-looking foundations in Canada, overall, their support of media-based projects remains sparse.

American producers have a further opportunity of leveraging support by turning to fiscal sponsors. In exchange for managerial oversight of a project, a fiscal

6 "Hot Docs Breaks Attendance Record," *Globe & Mail*, May 7, 2013. The festival reached an estimated 180,000.
7 http://crowdfunding.cmf-fmc.ca/facts_and_stats
8 Foundation Centre, *Growth in Foundation Support for Media in the US*, Nov 2013, p. 4.

sponsor can issue tax receipts for donations earmarked to a specific production. This option is attractive to both the producer and investor. The Fiscal Sponsor Directory lists 176 organizations that manage up to $1B in charitable funding.[9] In Canada, however, we find no such evidence of direct granting, which is due to the different regulatory framework governing charitable activities.[10]

Private equity financing is a route being explored by some Canadian documentary producers. Research undertaken for this report revealed financing scenarios that included private investors, both domestic and international. Friends and family contribute, as do angel and impact investors who may be seeking both a financial and social return. However, for a producer, successfully attracting private equity financing can mean a reduction in the allowable amount eligible for tax credits, in addition to costly legal and accounting fees. As for the investor, the return on the investment is by no means assured. So while Canada's film and television regulatory and funding bodies may promote the notion of seeking private equity, the research finds that producers have no incentives to pursue this type of investment.

While corporate brands have long been connected to Hollywood, they are increasingly finding symbiotic partnerships with documentary producers. Brands are now less overt around product placement; they are now more attuned to connecting their story to that of a film's subject. Both direct sponsorships and corporate social responsibility mandates have contributed money. Here though, filmmakers risk the accusation of presumed editorial interference. Furthermore, broadcasters or other potential financiers may opt out because they do not want to be affiliated with the corporation underwriting the documentary.

Entities like government departments, First Nations bands, research councils and academic programs also offer additional funding opportunities beyond the traditional broadcast-driven model. These relationships have always existed, and therefore do not exactly qualify as alternative per se, but they do contribute to a producer's efforts at diversifying their financing sources. Here, a producer must be prepared to invest time in relationship building and further ensuring that the documentary meets all of the stakeholders' needs.

Many documentary filmmakers are driven by goals of social change, and so they often prepare strategy campaigns aimed at public engagement for impact. Though these campaigns may share mandates with certain financiers, the activities directly related to achieving impact are rarely well funded. Outreach and audience development require resources beyond the small marketing and distribution budgets of most documentary productions. If impact design and measurement tools were more robust and accessible, then additional funders might be more willing to commit to social issues projects.

Turning to other jurisdictions, we find an array of examples of alternative financing. For example, in the US, a number of slate-driven private equity

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9 http://www.fiscalsponsordirectory.org/facts_stats.php

10 http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cgd/drftprpss-eng.html

enterprises invest in media. In the UK, a major brand supports impact outcomes. In Australia, individual philanthropists receive tax receipts for donating to documentaries.

We had hoped to unearth inspiring approaches to funding by turning to other cultural sectors like the music, interactive digital media and publishing industries. Yet these industries struggle equally with up-front financing, back-end distribution and artist development. They share common issues with the documentary sector, such as the effects of the digital revolution, access to affordable capital and inconsistent government funding.

Thus, this report shows that the traditional financing model in our current environment cannot meet the business needs of many Canadian documentary producers. Entrepreneurial filmmakers are expanding their range of approaches to bring alternative sources of financing into their companies and projects. These innovative practices help bridge budget gaps, and the resulting new partnerships can add value beyond a monetary one. Yet producers report encountering barriers at every step—legal, administrative and regulatory. This situation presents an opportunity for the documentary sector to engage Canadian funding organizations and other stakeholders in a conversation about how to address these obstacles and incentives for the future vitality of the industry.

CASE STUDIES

The report so far has delved into the theoretical applications of alternative funding, while the following section offers observations from producers and filmmakers in the field who have successfully applied their creative problem-solving skills to unearth new means of financing their projects. If the case studies offer inspiration, they also underline the many challenges described above. Indeed, one theme common to all of them was their difficulty in garnering the interest of Canadian broadcasters to license their project.

Two of the five case studies, *Living Downstream* and *Embracing Voices: The Woman Behind the Music of Jane Bunnett*, were produced without Canadian broadcasters or Canada Media Fund money. The other three, *Hadwin's Judgement: The Making of an Environmental Terrorist*, *Occupy Love* and *The World Before Her*, secured small licence fees from Canadian educational broadcasters or a specialty channel, which allowed them to access CMF support. None of the case studies selected for this report received a broadcast licence from any of the big broadcaster groups in Canada.

The budgets for the projects range from approximately $150,000 to over $1 million. As alternatives to the broadcaster-driven model, two projects, *Occupy Love* and *Embracing Voices: The Woman Behind the Music of Jane Bunnett*, went through crowdfunding campaigns. The other three were able to finance the gaps in their budgets through US foundations, Canadian non-profit groups, arts councils and private equity. Finally, *Living Downstream* was in production long enough to be among some of the last projects to receive funding from the now-defunct CIFVF.

As has been discussed in this report and elsewhere, conventional broadcasters have retreated from licensing Canadian documentaries. Without a Canadian broadcast licence, filmmakers cannot access tax credits or CMF, the largest single funder of Canadian productions. Without the CMF, the Canadian funding system for one-off or feature documentaries is restricted to Telefilm Canada's small Theatrical Documentary Fund (which requires a Canadian distributor or a broadcaster) or the National Film Board as a co-producer. This highlights the systemic quandary producers are confronted with: to avail themselves of the array of private or public funding sources available to them in Canada, they must obtain financing from a broadcaster who, arguably, has very little interest in the projects being put forward and is, therefore, a reluctant investor.

MOVING FORWARD

The case studies above indicate that creative and entrepreneurial producers are turning to alternative methods of financing with various degrees of success. As demonstrated in this report, crowdfunding, foundation support (typically non-Canadian), private equity investment and partnerships with corporate brands are all being used to address gaps in project financing.

The producer interviews drew out recurring themes around some of the benefits presented by these approaches. For instance, crowdfunding generates profile and builds a loyal community well before a documentary is completed. It allows filmmakers the chance to test their concepts and tweak treatments and campaigns while still in the development or production phases. The relationship a creator develops with his or her audience also enables them to develop a brand for their work, which can be leveraged for subsequent films.

Also, the case studies highlight that producers appreciate new partnerships, especially given that they often create more than monetary support. Because of their aligned missions, foundations, individual philanthropists and brands can add value in terms of content development, audience engagement and outreach strategies. International co-productions likewise open a world of collaborative possibilities whether on the financial or creative aspects of a documentary.

Social issues filmmakers are often described as passionate and committed. Most seek to make an impact. They strive to ensure their work has the power to change perceptions, behaviours and even legislation. Many investors share these same goals. Expanding the number of stakeholders and bolstering the toolkit to include a wider range of support mechanisms could help increase a project's reach.

While the case studies do emphasize the positive results of new and alternative financing models, they also illustrate—especially when viewed against the wider landscape of this report—that each method generates just as many frustrations and challenges. With little formal training or bridge-building initiatives in the alternative financing realm, most producers can only learn as they go, often at considerable time and expense. Given the debatable rate of return in terms of resources and time, then, the existing structures may be hindering business growth.

More than one case study producer tried pitching to multiple broadcasters, but no one came on board. With so few broadcasters commissioning one-off documentaries, competition is fierce for that licence—yet it is so necessary to the rest of the Canadian funding system.

Issues within the Canadian administrative environment also prevented producers from pursuing some of the opportunities available in other jurisdictions. The manner in which concepts such as fiscal sponsorship, accredited investor, charitable activities, prescribed persons and assistance are legally interpreted could be inhibiting potentially innovative practices.

Producers suggested the traditional system supported by public funds could be improved by introducing incentives to spur more diverse means of financing and encourage investment in the screen-based sector.

There is an opportunity here for industry stakeholders to come together to discuss the findings of this report and map a way forward to greater economic activity in the documentary sector.

Topics for consideration could include:

- Conceiving of alternatives to the broadcast trigger
- Reviewing administrative processes
- Designing investment incentives
- Exploring the application of fiscal sponsorship in a Canadian context
- Discussing public/private partnerships for new fund(s)
- Encouraging investment for the benefit of outreach, audience engagement and impact
- Investigating the specific needs of the French-language market
- Identifying further research, education and collaboration initiatives

In conclusion, documentaries have historically played a pivotal role in defining Canada's cultural landscape. Whether as feature-length POV documentaries or as immersive interactive digital media pieces, these stories help bind the country *as* a country. They represent both works of art and cultural products. It is our belief that a strong documentary sector, driven by passionate filmmakers and producers who are able to turn to a wide range of both public and private funding sources when securing a project's financing, will allow our documentary legacy to continue for the benefit of audiences here and on the world stage.