

State of the Polish Independent Audiovisual Production Sector

Growth opportunity through cooperation
with the banking sector

Objectives and Context of the Report

The audiovisual production sector is a crucial creative industry both in Poland and globally. It comprises feature, documentary, and animation productions, both film and series. For several years now, audiovisual production has also incorporated new forms of expression such as Virtual Reality films, Augmented Reality productions, and museum and exhibition projections. Currently, there are no comprehensive studies on the market that provide an overview of the industry's operations in Poland.

This report aims to provide up-to-date information on the condition of the audiovisual production sector in Poland, the entities involved, and the position of Polish production in the global market. It also attempts to provide knowledge on cash flow in film productions, which in the future may improve the liquidity of companies operating in the sector. According to our research, 84.7% of producers find challenging access to finance to be the most significant obstacle to industry growth. Furthermore, 79.6% of respondents experience liquidity problems¹.

Producers in Poland highlight the absence of dedicated financial instruments to facilitate film production, which is hindering the sector's growth in Europe. The lack of comprehension among financial institutions regarding the operations of audiovisual entities is further reducing the competitive edge of Polish producers. According to them, Poland's position in the global audiovisual market is below par.

Cooperation between the financial sector and audiovisual production yields several advantages, including industry expansion. As a result, it fuels economic growth by helping to generate new market participants and ventures whilst promoting innovation. Furthermore, this collaboration serves to professionalise and institutionalise the industry. Backing from the banking industry for Polish producers presents an advantage on multiple levels. Not only does it curtail the inconvenience of seeking financial assistance outside the country, but it also enables the economy to retain the profits generated from audiovisual financing.

Co-funded by the Ministry of Culture and National Heritage
from "Rozwój Sektorów Kreatywnych" programme

Patronage of the Polish Banks Association Management Board

¹ CAWI (Computer-Assisted Web Interview) survey conducted among members of the Polish Producers Alliance (KIPA) in August and September 2023 (n=59).

Executive Summary

The European Audiovisual Observatory's preliminary estimates reveal that globally, **8,636 films were produced in 2022, indicating a 4.5% rise from the previous year. However, worldwide filmmaking is yet to recuperate to its pre-COVID-19 levels.** To put this in perspective, 9,536 films were produced in 2019.

The audiovisual production market worldwide is characterised by diversity and dispersion. The United States, European nations, and Asian countries, such as India, China, Japan, and Korea, dominate the market in terms of feature film production. **Although Poland is not among the world leaders regarding the number of films produced, we make more films per capita than China or India.**

According to box office data², market forecasts are positive for future development. **The worldwide and Polish cinema markets are anticipated to exceed pre-pandemic levels by 2025**, with the Central and Eastern European market projected to surpass the 2019 figure as soon as 2024. However, it is anticipated that the growth of the Polish market will lag the region and the world, with a compound annual growth rate [CAGR] of 10.8% between 2022 and 2027 [compared to 13% and 11.7% for the world and the Central and Eastern European region, respectively]³.

According to Eurostat estimations, **the European audiovisual production market holds a value of roughly EUR 50 billion in terms of companies' revenue in the sector⁴.** The industry employs over 330,000 people through approximately 133,000 companies⁵. Poland ranks as the sixth-largest employer in the industry within the EU, following Germany, France, Spain, the Netherlands, and Italy.

According to recent Eurostat figures, the Polish audiovisual production market was valued at over PLN 8 billion (EUR 1.7 billion) in 2021. Nonetheless, the sector's

revenues remain 2% lower than pre-pandemic levels in 2019. The audiovisual production industry in Poland presently employs 17,300 individuals, marking the highest number in a decade. Poland contributes around 3.4% of the European film and TV production revenues.

Based on the published lists by the Polish Film Institute [PISF or Eng. PFI] of funded projects and the implementing entities, it can be approximated that there are presently about 300 entities solely engaged in film and television production within the Polish market⁶.

Statistics Poland reports that in 2022, a total of 367 films have been produced in Poland. Of these, 112 were feature-length films, with 71 being intended for theatrical release. Additionally, there were 255 medium-length and short films produced, marking the highest number in the past five years. Feature films and documentaries maintain dominance within the Polish audiovisual industry.

The worldwide audiovisual industry is continuously changing, just like other sectors. Film producers have identified **three key factors that will significantly impact its future: the rise of streaming services, changing audience preferences, and advancements in artificial intelligence technology.**

Polish film producers highlight the scarcity of dedicated financial instruments for the sector which are structured to meet its specific requirements. **The primary hindrance to industry growth, cited by 84.7% of producers, is the challenging access to finance. Furthermore, 79.6% of respondents report facing liquidity issues,** impeding film production processes in Poland. According to the producers themselves, cash flow issues could result in the requirement to terminate other projects, cease payments of present invoices, or reduce expenses. Furthermore, it is directly linked to Poland's inferior position on the international audiovisual production market, as perceived by producers⁷.

² Box office refers to the revenue generated from the sale of cinema tickets.

³ PwC, *Global Entertainment, Media & Telecommunications Outlook 2023-2027*.

⁴ This study assumes that the audiovisual production sector is defined by the NACE Rev. code. 2 [European classification of economic activities] J591 corresponding to the Polish PKD 59.1 — Activities related to films, video recordings and television programs.

⁵ Eurostat, Structural Business Statistics.

⁶ Estimates based on subsidies for film production granted by the Polish Film Institute.

⁷ CAWI (Computer-Assisted Web Interview) survey conducted among members of the Polish Producers Alliance (KIPA) in August and September 2023 (n=59).

For filmmakers, the primary challenge is **to secure financing to cover the current expenses of film production. High inflation exacerbates this issue.**

The survey reveals that 79.7% of respondents consider the rising costs of film crew salaries the most significant production obstacle due to high inflation⁸. For filmmakers, the primary challenge is to secure financing to cover the current expenses of film production. Dealing with liquidity problems, some must resort to covering costs using their own funds, but not all have the financial means to do so.

Producers state that working capital loans (47.5%), loans under BGK guarantee (44.1%), and completion bonds (27.1%) would enhance the “professionalisation” of the audiovisual production market in Poland.

Nevertheless, banks in Poland are unfamiliar with the market’s specifics and lack a strategic orientation to serve the film production sector. There is no analysis of the film industry within this market in banks, thus leaving bankers unaware of its characteristics.

The film production sector has unique cash flow patterns that do not conform to those of other industries. Furthermore, evaluating a film’s market success requires specialised knowledge.

Some banks treat film production as they would any other business, which generally means the industry is excluded from bridging finance. Other banks view the audiovisual production sector as a higher-risk industry and may either finance it based on a strategic approach or subject it to detailed analysis. In the latter scenario, an unexpected opportunity may arise to secure a loan.

Banks in Poland do not acknowledge the audiovisual production industry. Our survey revealed that film producers were not offered guaranteed loans through the Creative Europe programme, which covered up to 80% of their financing. Granting a loan to a film producer with a de minimis guarantee is an exceptional circumstance.

Polish banks can take advantage of bridging finance for film productions supported by the Polish Film Institute. The Institute guarantees allocated funding, but producers may receive the funding transfers at different times than their expenses arise. Therefore, loans secured against PISF grants and incentives would streamline the film production process and any interest earned would be a profit for the banks.

Banks are more inclined to offer bridge financing in countries other than Poland. Additionally, there are specialised organisations that provide financial services customised to meet the film production industry’s unique needs. These institutions include consumer finance companies, investment funds, and joint ventures of investment banks, which occasionally receive capital support from major universal banks looking to establish themselves in this market.

Currently, there is no designated entity in Poland that offers commercial financial support for film producers, such as a fund, investment bank or lender. It is necessary to establish an entity that can consolidate knowledge and economically evaluate audiovisual production, thus addressing the prevailing market gap. Banks and other public companies could provide funding to this entity, thereby fulfilling their ESG objectives⁹.

Establishing such an entity would grant Poland the status and reputation of a nation with a stable and proficient film industry, thus promoting market expansion.

This would allow banks and other public corporations to benefit from their investment in audiovisual culture.

⁸ Ibidem.

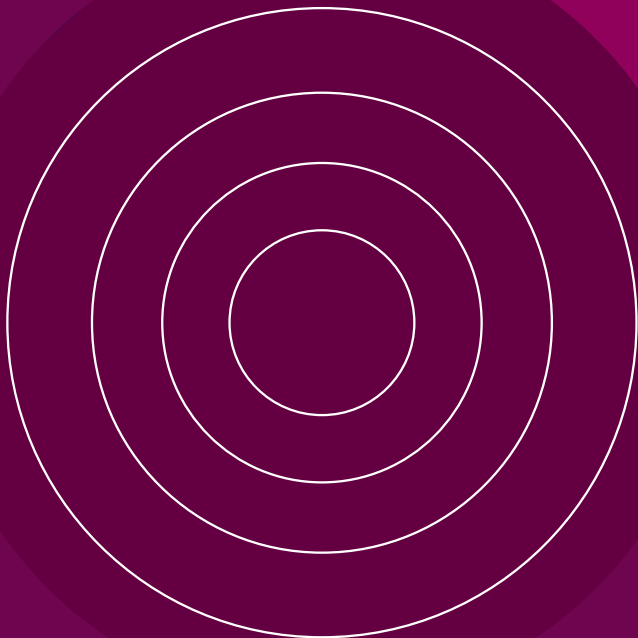
⁹ ESG stands for Environmental, Social, and Governance. It covers environmental, social responsibility and corporate governance issues.

Table of Contents

Objectives and Context of the Report	1
Executive Summary	2
Part 1. Characteristics of the Audiovisual Production Market	5
Poland's Position in the Global Audiovisual Production Market	6
Characteristics of the Polish Audiovisual Production Market	15
Main Trends Shaping the Polish and Global Audiovisual Production Market	21
Key Players in the Polish Audiovisual Production Market	23
Part 2. Financing Audiovisual Production in Poland — Challenges and Opportunities	26
From Idea to Implementation — the “Supply Chain” in the Audiovisual Production	27
Business Models for the Production and Distribution of Audiovisual Content	30
Cash Flow Challenges in Film Production	36
Audiovisual Production Support System in Selected European Countries	39
Public financing systems	39
Debt financing systems	43
The Perception of the Audiovisual Production Sector by Polish Financial Institutions	47
Marketplace For Credits and Loans in the Audiovisual Production Sector	49
Demands of the Audiovisual Production Industry	51
Summary	53
Research Methodology	55
Authors	56

1.

Characteristics
of the Audiovisual
Production Market



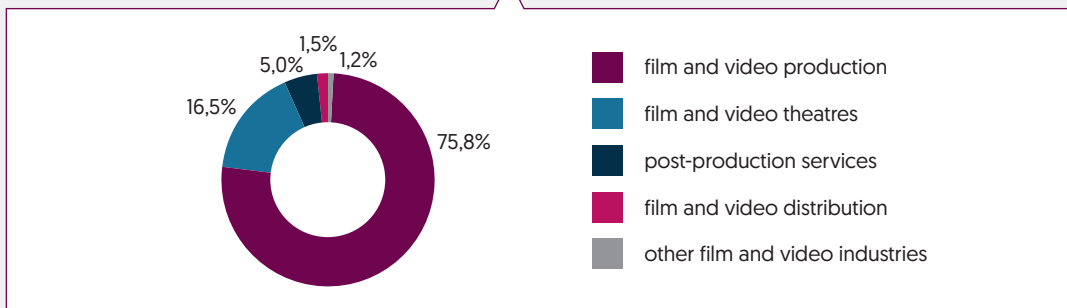
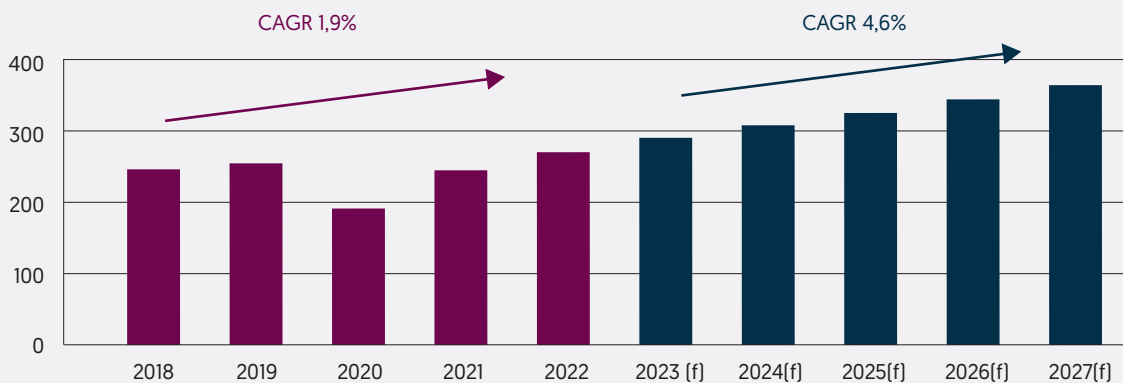
Poland's Position in the Global Audiovisual Production Market

The worldwide film and video industry was worth USD 269.8bn in 2022, exhibiting a 10.4% increase from the previous year¹⁰.

This figure encompasses revenues from the production or distribution of films, videos, TV shows or commercials, and the provision of post-production services. In terms of revenue, film and video production accounts for the largest share of the global film market (75.8%). North America [38.6%] and Western Europe [37.2%] currently dominate the global film and video market geographically, with the Asia-Pacific region accounting for a significant 5% share. Projections indicate that the industry's revenue will continue to grow at a CAGR [compound annual growth rate] of 4.6% between 2023 and 2027.

Focusing on the film production sector, the European Audiovisual Observatory's preliminary estimates indicate that there was a global output of 8,636 films in 2022, representing a 4.5% increase from the previous year. However, global production remains below pre-pandemic COVID-19 levels with only 9,536 film productions made in 2019. Pandemic-related restrictions resulted in many film productions being put on hold. Following the worldwide impact of the pandemic on various industries, the film production sector is currently making a gradual return to growth.

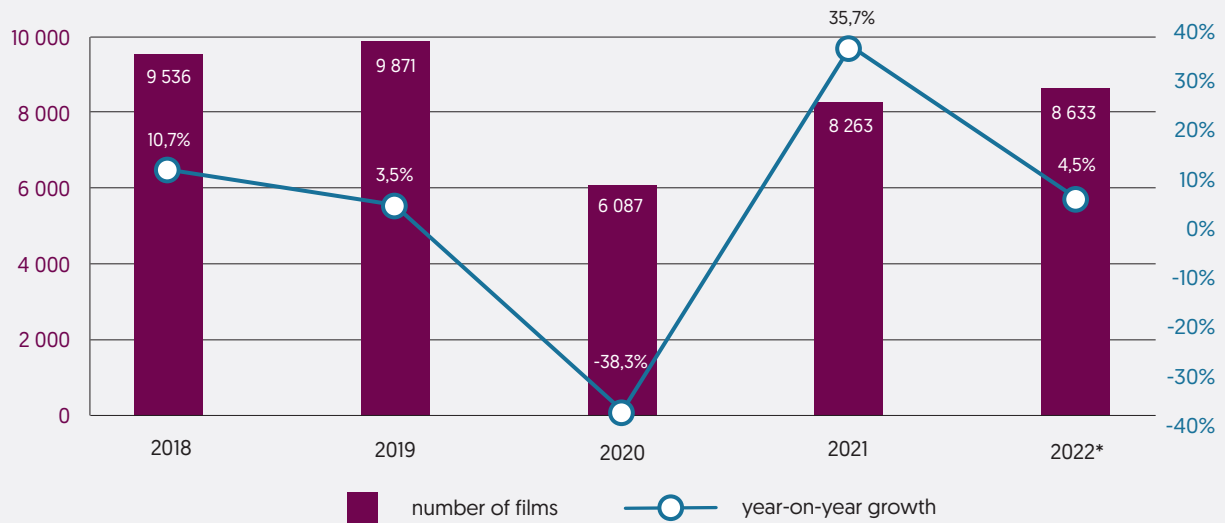
Figure 1. Global Film and Video Market Value (USD Billion)



Source: The Business Research Company, Global Film and Video Market Briefing 2023.

¹⁰ The Business Research Company, Global Film and Video Market Briefing 2023.

Figure 2. The Global Audiovisual Production Market — Number of Feature Films Produced Worldwide from 2018 to 2022



Source: European Audiovisual Observatory, Marche du Film — Focus 2023.

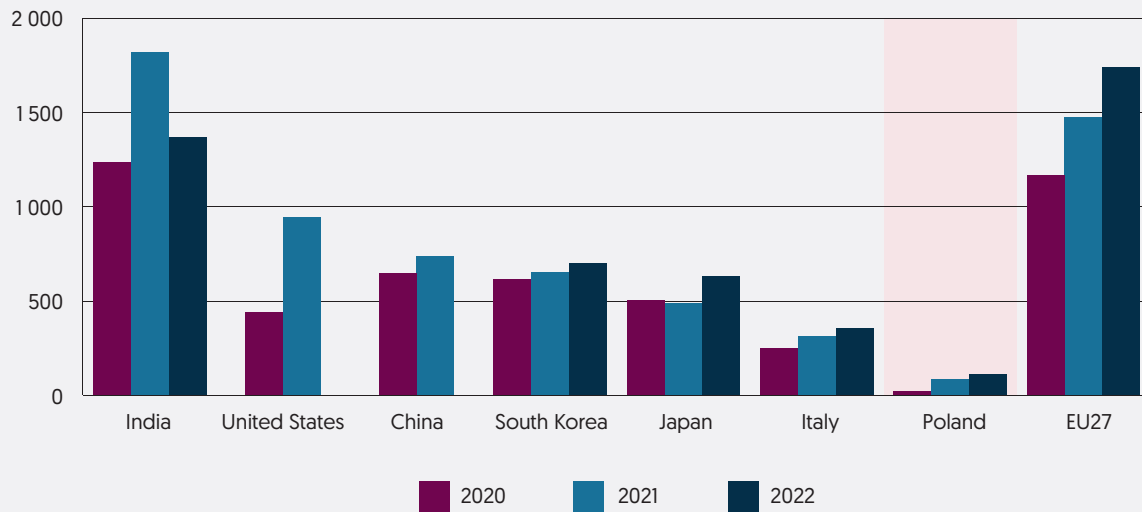
* 2022 figures may be incomplete as a result of delayed reports from some countries.

The audiovisual production market has a diverse and dispersed nature. The leading positions in feature film production within the market are held by the United States, Europe, and Asian countries like India, China, Japan, and Korea. This can be attributed to factors such as population, financial resources, the development of film industry infrastructure, and cultural preferences. The continual rise in the number of films produced within these markets indicates that this tendency is not expected to change in the coming years. Only India was projected to experience a decrease in film production for 2022 among the listed countries. The figures for the US and China are not yet available, while estimations are only obtainable for other nations. In recent years, although Poland has fallen behind the global leaders in film production, it produced more films per capita than India and China. Conversely, Poland produces fewer films in comparison to Italy, Japan, South Korea and the member states of the European Union. Among the global leaders, South Korea produces the highest number of films per capita¹¹.

On the other hand, Poland presents a comparatively high average annual growth rate (CAGR) of film production from 2018 to 2022 (9.9%). This observation highlights the potential of the Polish audiovisual production sector.

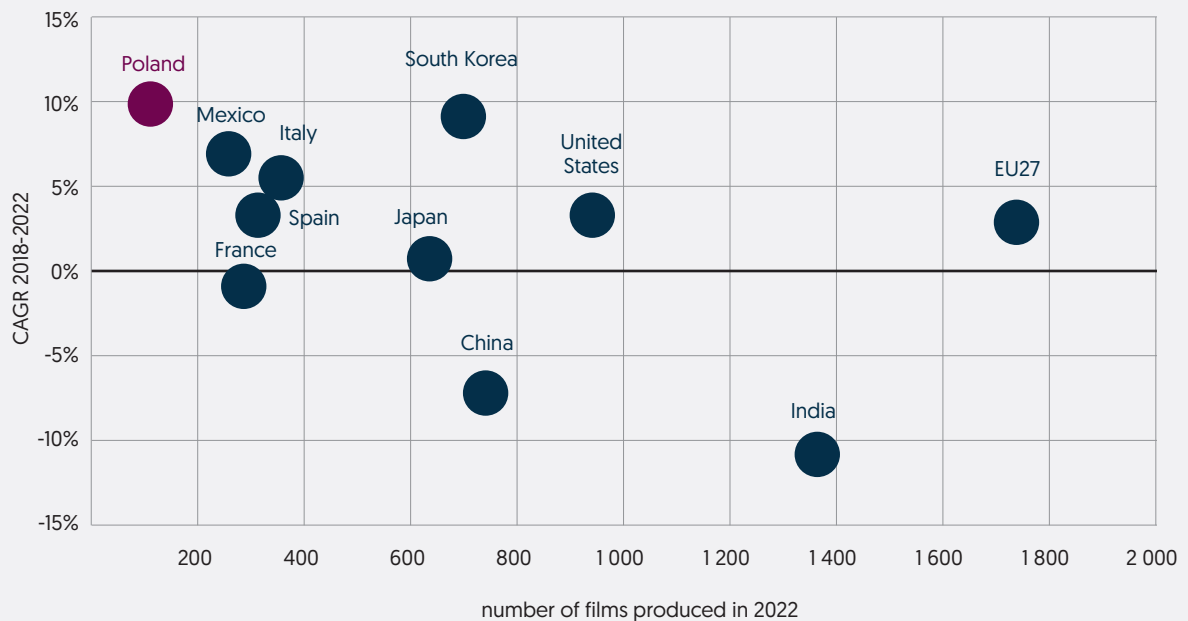
¹¹ The value obtained by converting the number of films produced to the population.

Figure 3. The Global Audiovisual Production Market — Largest Markets in Terms of Number of Films Produced and How They Compare to Poland.



Source: European Audiovisual Observatory, Marche du Film — Focus 2023 and Statistics Poland.

Figure 4. The Global Audiovisual Production Market — the Largest Markets in Terms of Number of Films Produced and Production Growth, and How They Compare to Poland.



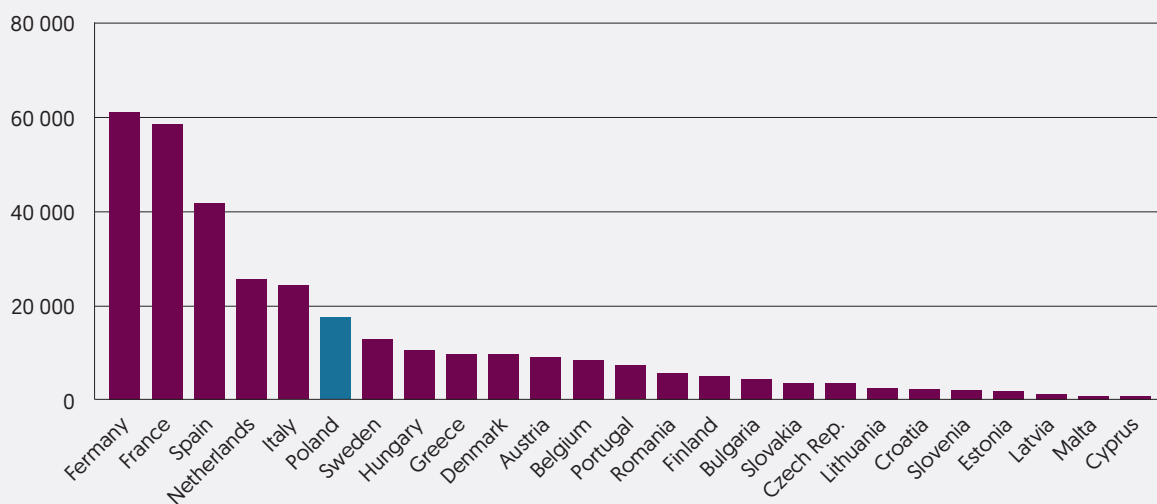
Source: European Audiovisual Observatory, Marche du Film — Focus 2023 and Statistics Poland.

According to Eurostat estimates, the value of companies' revenues in the European audiovisual production market¹² can be assessed at around EUR 50 billion.

The industry employs over 330,000 people through approximately 133,000 companies¹³. Poland ranks as the sixth-largest employer in the industry within the EU, following Germany, France, Spain, the Netherlands, and Italy. Beyond having a larger population than Poland, the greater consumption of cultural goods in these countries can also be attributed to a substantially lengthier tradition of film art, a larger market, and a higher income level.

Poland performs even better than the European market in terms of the number of companies operating in the industry. Based on activity classification data, there are 11,500 such enterprises in Poland, positioning our country in third place in Europe, following France and the Netherlands. However, the Netherlands' superior ranking may be attributed to preferential tax solutions¹⁴, which potentially incentivise companies to register operations there. In terms of industry revenues in 2021, Poland came in the sixth place, trailing behind France, the Netherlands, Germany, Spain, and Sweden. Nevertheless, the difference in positioning in comparison to the number of operating businesses could be ascribed to the registration of numerous sole proprietorships that reported relatively low revenues.

Figure 5. Employment in the Audiovisual Production Sector in European Union Countries in 2021



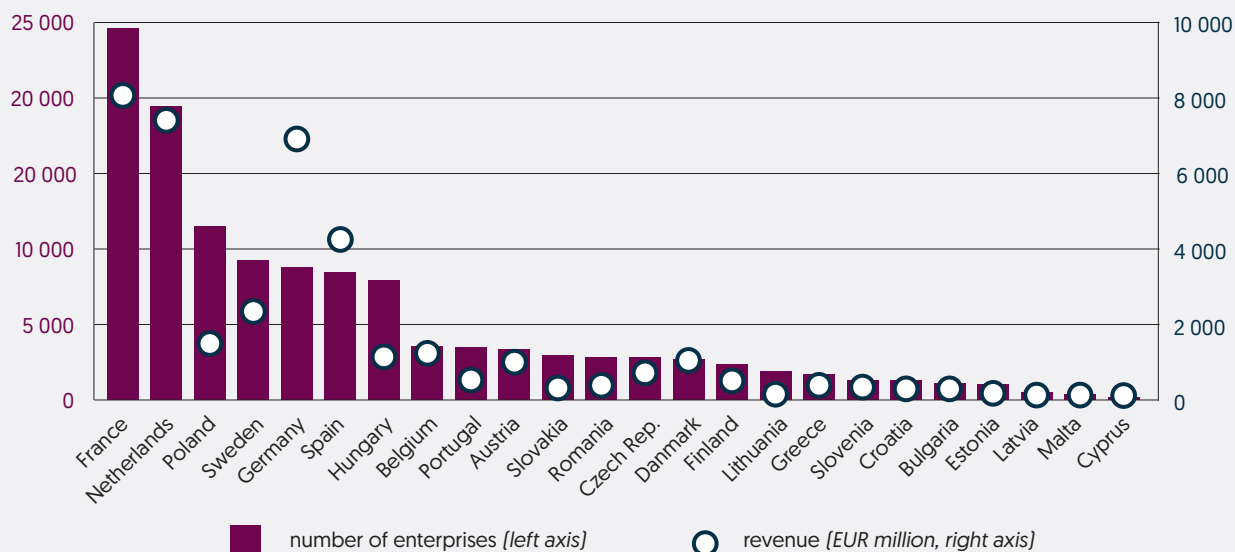
Source: Eurostat, Structural Business Statistics. Note: the figure only presents countries for which data for 2021 was available.

¹² In this study, the audiovisual production sector is defined as per the NACE Rev. 2 [European Classification of Economic Activities] code J591, which corresponds to Polish PKD 59.1. Motion picture, video, and television programme activities.

¹³ Eurostat, Structural Business Statistics.

¹⁴ It is important to remember that the Netherlands was, for an extended period, perceived as a tax haven, leading many companies (regardless of their industry) to establish their operations there. However, in recent years, the Dutch government has implemented regulations aimed at preventing tax avoidance, resulting in a shift in this perception.

Figure 6. Number of Companies Operating in the Audiovisual Production Industry and Their Corresponding Revenues for 2021 across European Union countries



Source: Eurostat, Structural Business Statistics. Note: The chart only includes countries for which data for 2021 was available.

In terms of distribution, over 4.3 billion cinema tickets were sold worldwide in 2022, indicating a 43% decrease from the pre-pandemic period. The global film market's vastness is exemplified by the fact that, on average, one out of every two individuals around the world visited a cinema in 2022.

In the previous year, approximately 657 million tickets were sold in the European Union and the UK, representing a significant increase on the previous year's figure of 403 million tickets. Although sales have not yet returned to pre-pandemic levels [the 2022 figure is 67% of the average number of viewers in 2017-2019], it is worth noting that some restrictions were still in place in 2022.

Additionally, other geopolitical and macroeconomic factors, such as the war in Ukraine and high inflation, are also not insignificant. The prevailing global uncertainty has a negative impact on consumption levels, including cultural goods. Furthermore, there has been a change in audience preferences and sales channels, with the growing popularity of streaming services (further details are provided in the chapter regarding major trends in the audiovisual production market).

In terms of geographic segmentation, the leading markets in 2022 comprised India, the United States, and Canada (considered a single market), together with China, which is closely correlated to the populations of these territories. Mexico, France, and Japan came afterward. These six markets amassed a total of 2.7 billion cinemagoers in 2022, up from 2.3 billion the previous year. Polish cinemas drew in 41.8 million spectators last year, which equates to 1.1 tickets sold per capita¹⁵.

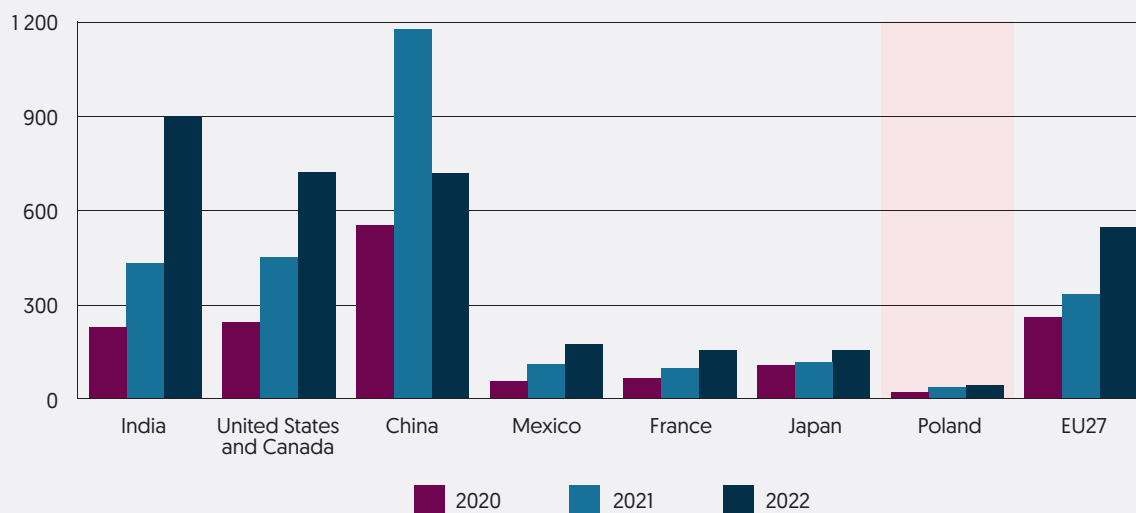
¹⁵ European Audiovisual Observatory, Marche du Film — Focus 2023.

A large, empty cinema hall with rows of seats and a screen displaying statistics. The scene is dimly lit with red ambient lighting. The ceiling features several spotlights, and the walls are lined with horizontal light strips. The seats are arranged in a grid, and the screen is the central focus, displaying the number 41,8 mln and the text 'viewers visited Polish cinemas in 2022'.

41,8 mln

viewers visited Polish cinemas in 2022

Figure 7. The Global Audiovisual Production Market — Largest Markets in terms of Cinema Audiences and a Comparison to Poland (in millions).



Source: European Audiovisual Observatory, Marche du Film — Focus 2023, Statistics Poland.

The growth of the film market can be evaluated by analysing ticket sales in relation to country's population. France and Ireland lead the European market with over 2 tickets sold per person in 2022. The UK, Denmark, and Estonia follow suit. Poland and Austria share the tenth spot in Europe with 1.11 tickets sold per person.

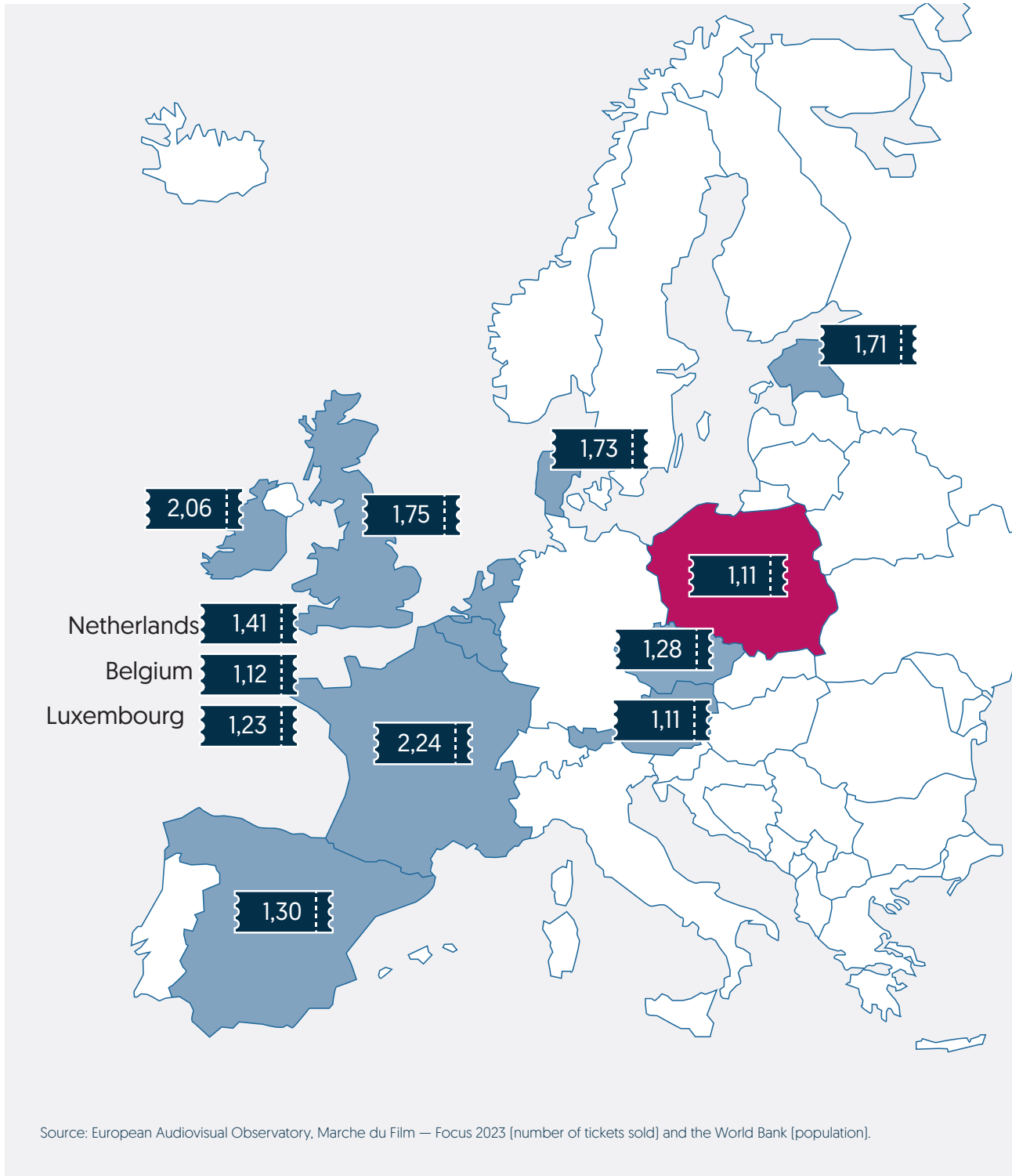
The worldwide box office generated USD 25.9 billion in 2022, an increase of 21.6% compared to the previous year and 120% compared to the pandemic-stricken 2020, but this is only 61% of the figures registered in 2019. One factor that may have resulted in this downturn is the implementation of COVID-19-related limitations. Nevertheless, it is important to acknowledge that there is a general trend of declining cinema attendance in response to the growing popularity of streaming services. The top 10 highest-grossing movies of 2022 comprise eight American productions, one US-China co-production, and one Chinese production. The leading productions are Avatar: Creature of Water, Top Gun: Maverick, and Jurassic World¹⁶.

Future predictions for market growth are still positive. The worldwide film industry is anticipated to go beyond pre-pandemic levels by 2025, with the Central and Eastern European market expected to exceed its 2019 performance by as early as 2024. The market in Poland, on the other hand, is anticipated to undergo a lower growth rate in comparison to its regional and global counterparts, with a CAGR of 10.8% between 2022 and 2027 (as opposed to 13% and 11.7% for the global and Central and Eastern European markets, respectively)¹⁷.

¹⁶ Ibidem.

¹⁷ PwC, Global Entertainment, Media & Telecommunications Outlook 2023-2027.

Admissions per capita in 2022



The audio-visual sector worldwide is susceptible to various social, economic, and technological changes that shape film production and consumption, contributing to the market's continuous evolution and dynamism. In recent years, access to the internet and streaming services has facilitated the dissemination of audio-visual content to overseas audiences.

Cinemas worldwide have observed a rise in attendance, plausibly due to pandemic recuperation and a refined adaptation of cinema offerings to suit the needs of the audience. The vast population of China, India, the United States, and Canada typically attract the most substantial cinema crowds.

Table 1. Value of the Cinema Industry¹⁸ and Growth Outlook for the World, Central and Eastern Europe and Poland

Market	2018	2019	2020	2021	2022 (p)	2023 (p)	2024 (p)	2025 (p)	2026 (p)	2027 (p)	CAGR (2022-2027)
World (USD billion) — total box office and advertising revenue	41,50	43,04	12,02	21,51	28,27	36,25	42,31	46,54	49,59	52,10	13.01%
Box office	38,22	39,38	11,03	19,64	25,34	32,96	38,84	42,98	45,97	48,44	13.83%
Central and Eastern Europe (USD million) — total box office and advertising revenue	772	799	199	341	601	733	838	926	990	1,042	11.65%
Box office	705	728	182	318	563	688	786	871	932	983	11.81%
Poland (USD million) — total box office and advertising revenue	292	290	78	131	193	239	268	292	308	321	10.76%
Box office	259	255	71	121	177	220	246	267	282	294	10.66%

Source: PwC, Global Entertainment, Media & Telecommunications Outlook 2023-2027.

¹⁸ The value of the cinema industry includes revenues from cinema distribution (box office and advertising revenues). These revenues include consumer spending on tickets (box office) and cinema advertising expenditure.

Characteristics of the Polish Audiovisual Production Market

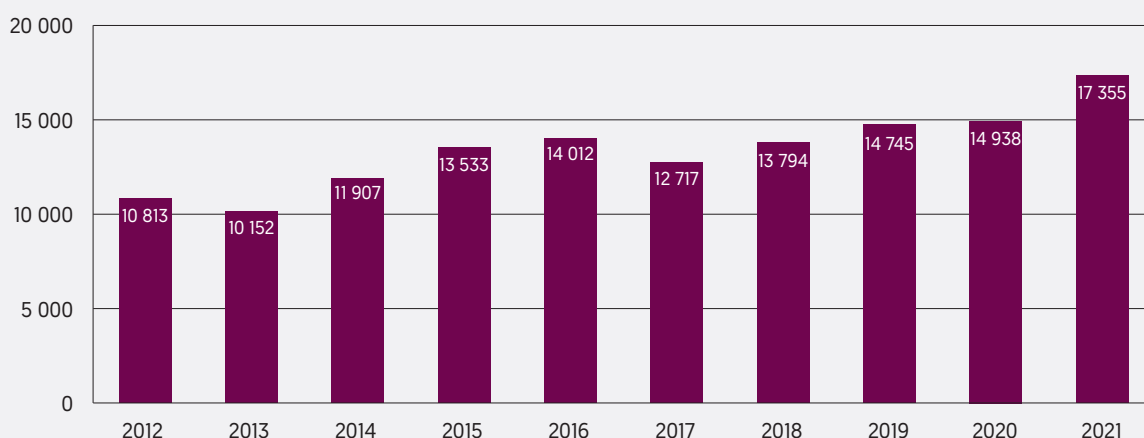
The audiovisual production market in Poland is estimated to be worth more than PLN 8 billion (€1.7 billion) in 2021,

although the sector's revenues have yet to return to pre-pandemic levels, with a 2% decline compared to 2019. There are currently 17,300 people employed in the audiovisual production sector in Poland, the highest number in 10 years. Poland accounts for around 3.4% of the film and TV production revenue in the European market. As previously mentioned, Eurostat data shows that more than 11,000 entities in Poland were registered in 2021 under PKD codes linked to film and television production. These organizations are involved in various undertakings, including the production of films, videos, and television programmes, post-production processes related to films, videos, and television programmes, the distribution of films, videos, and television programmes, and engagement in activities connected to film production. It is worth mentioning that this category covers firms that

are registered under the appropriate PKD code but may not be directly engaged in creating films. Based on the lists published by the Polish Film Institute (PISF) of funded projects and their implementing entities, it is estimated that there are approximately 300 entities in the Polish market focused on producing films and series¹⁹. Over half of these (160) are affiliated with the Polish Producers Alliance (KIPA).

It is worth noting that the impact of audiovisual production on the Polish economy goes beyond employment in cultural sectors. When examining film budgets, it is clear that although roughly two-thirds of the spending is linked directly to the audiovisual production or creative industries, film production is a broad endeavour that also involves other sectors of the economy, such as transport and logistics, finance, insurance and legal services, as well as accommodation and food services, among others. These sectors provide both direct and indirect contributions to revenue and employment in other sectors of the economy²⁰.

Figure 8. Employment in the Audiovisual Production Sector in Poland from 2012 to 2021

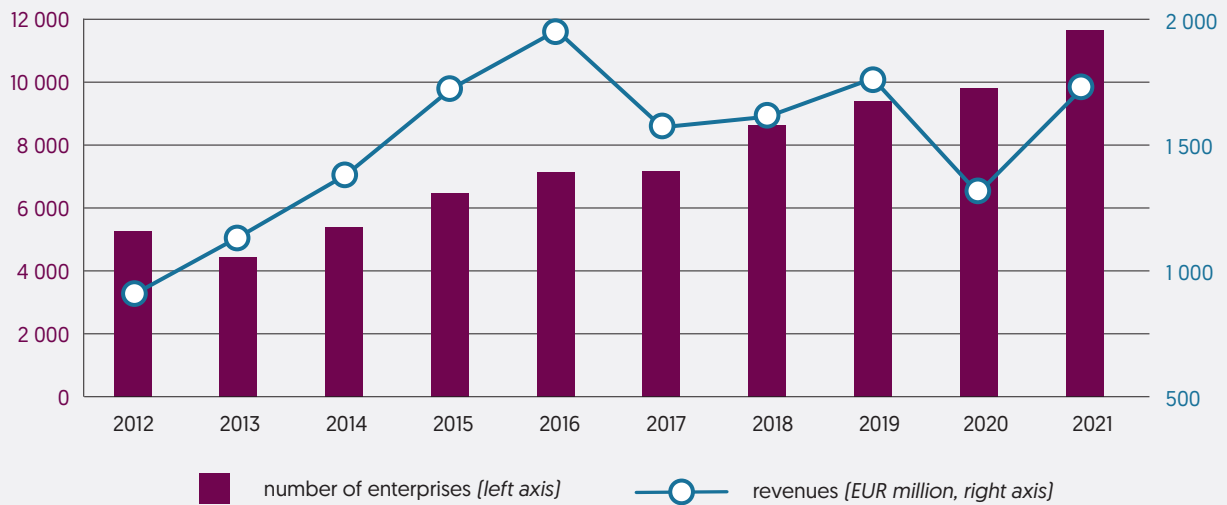


Source: Eurostat, Structural Business Statistics.

¹⁹ Estimates based on subsidies provided by the Polish Film Institute for film productions.

²⁰ PwC analysis based on sample film budgets.

Figure 9. Number of Companies in the Audiovisual Production Sector in Poland and Their Revenue from 2012 to 2021



Source: Eurostat, Structural Business Statistics.

“ Creative sectors are playing an increasingly vital role in the economy, and it is imperative to create the best possible conditions to facilitate their development. Poland’s position in the global audiovisual production market could be much improved with greater cooperation with the financial sector. This cooperation would not only bring economic benefits and allow profits to remain in the country, but also support the growth of the cultural sector in Poland.

Prof. Witold Orłowski, Chief Economist, PwC

The Leontief model and the input-output table can allow for the examination of the indirect impact of the audiovisual industry. This analysis scrutinises how the purchases made by producers during the filmmaking process influence sales throughout the economy. Furthermore, the model intends to approximate the dissemination of extra demand in the economy due to suppliers’ acquisition of goods, services, and materials. In addition to determining the demand for goods and services produced by the industry itself, the model allows for the identification of so-called multiplier effects, i.e., additional increases in demand caused by increased activity of subcontractors).

The model was created by estimating costs for filming and TV series across industries to determine the average expenses incurred in each industry stemming from the production of a film or series. The overall budgets for films produced in 2022, based on data from Statistics Poland, amounting to £682.8 million, acted as an initial reference point.

Taking into account multiplier effects, the direct and indirect sales generated in connection with the production of films and series constitute demand for services related to audiovisual production (e.g. image editing, sound, VFX effects costs amounting to 21.6%) in the culture and arts sector [e.g. employment costs of directors, set designers, actors, amounting to 17.6%], in the services sector [e.g. equipment rental, advertising and promotion, administrative services, amounting to 14.9%], in transportation and logistics [6%], in the real estate and construction-related services sector [e.g. facility rentals amounting to 5.6%], in the hotel and restaurant services sector [3.4%], finance and insurance [2.5%], IT services [2.5%], municipal services [e.g. energy providers amounting to 2.2%]. Naturally, the aforementioned industries are not the only ones to reap additional sales. It can be argued that for every pound spent on audiovisual production, there is an extra pound in sales throughout the economy.

²¹ Statistics Poland, Satelitarny rachunek kultury w 2018 r.

According to Statistics Poland, the entire cultural sector contributed 2.8% to Poland's Gross Value Added (GVA) in 2018²¹. The value added by the audiovisual arts and multimedia amounted to PLN 9.1 billion in the same year. However, in 2021, the GVA contribution of the audiovisual, sound, and music production as well as broadcasting, reduced to 0.42% compared to 0.54% in 2013. This decline indicates the decreased significance of this sector in the country's GVA²². Still, this may be largely attributed to the growth of other services, particularly digital ones. In the context of film production, Statistics Poland reports that a total of 367 films were produced in Poland in 2022, comprising of 112 feature-length films and 255

medium-length and short films. In terms of the genres of films produced in 2022, feature films prevailed in cinema productions, comprising almost two-thirds of the total. Documentaries secured the second position, followed by animated films in third place. When it comes to television productions, documentaries made up the vast majority (almost 70%). Significantly, the allocation of funds for cinema and television film production experienced a remarkable growth of 70.2% in comparison to the previous year, totalling to PLN 682.8 million. Statistics Poland reports that almost a quarter of all feature-length films was produced through international co-productions in 2022²³.

Figure 10. Film Production in Poland from 2018 to 2022

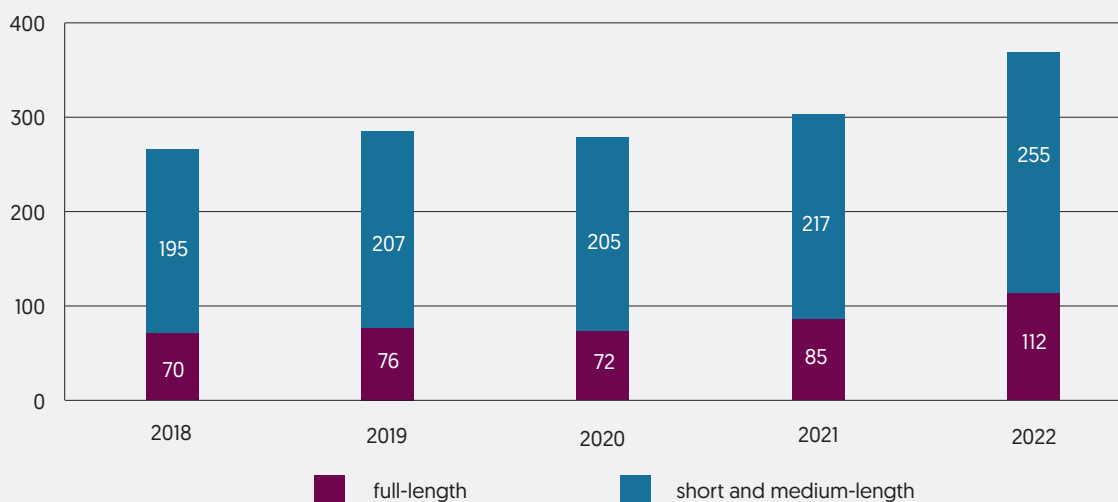
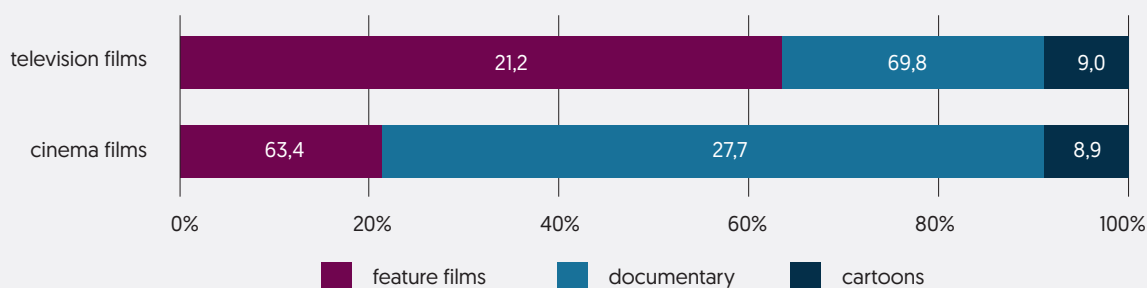


Figure 11. Structure of Genres Produced in Poland in 2022



Source: Statistics Poland.

²² Estimates based on Eurostat; National accounts aggregates by industry. Data includes PKD sections 59 — Motion picture, video and television programme production, sound recording and music publishing activities and 60 — Programming and broadcasting activities.

²³ Central Statistical Office, Cinematography in Poland in 2022 and Culture and national heritage in 2022.



367

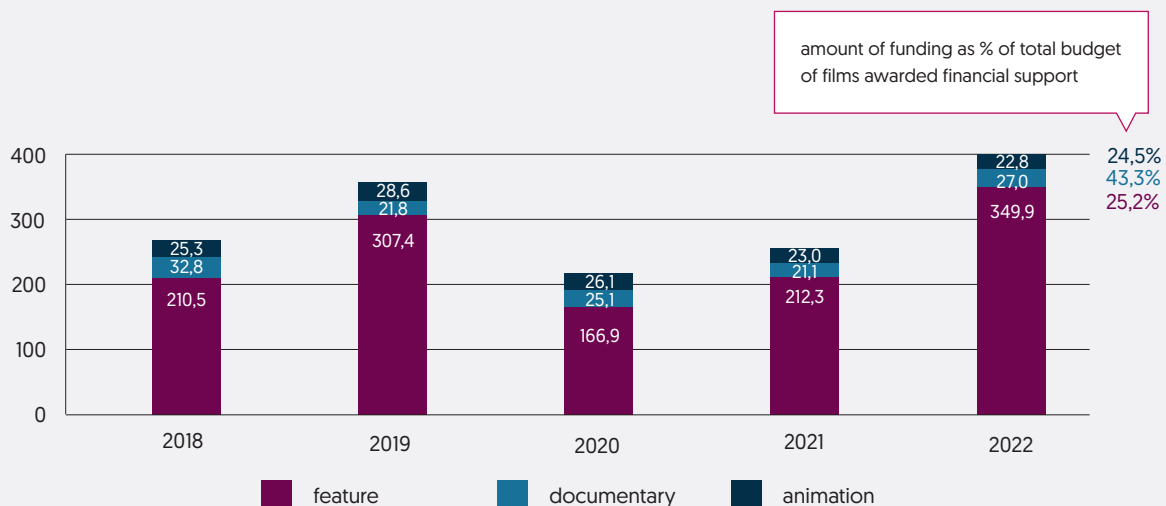
films produced in total
in Poland in 2022

Polish Film Institute (PISF) data shows that the combined budgets of films that received PISF funding surpassed PLN 399 million. Of the total budgets by film genre, documentaries received the most funding (43.3% of the total budget), followed by feature films and animation in the third place. Although it secured the second spot behind feature films from 2019-2021, animation had the lowest total budget allocation in 2022.

As with other nations, the Polish film industry has witnessed a market rise in audience figures, screenings, and film productions in 2022 compared to the pandemic years of 2020-2021. As per Statistics Poland figures, the number of screenings increased by 57.2%, the number of viewers by 50.8% and the number of films by 21.5% compared to 2021,

although the high increases occurred due to a low benchmark caused by pandemic restrictions. On the contrary, in 2022, the number of cinema attendees in Poland was 30% lower than the pre-COVID-19 average (which stood at 59.2 million annually from 2017 to 2019). Nevertheless, this trend represents the global tendency of declining cinema attendance due to the increasing prevalence of streaming platforms. In 2022, US productions were the most popular with 64.4% of viewers, while Polish productions ranked as the second most watched films at 20.4%. Polish productions garnered 20.4% of viewers. The top 10 most-watched films in Poland in 2022 included two Polish productions, „Listy do M. 5” (translated as “Letters to Santa 5”) and “Johnny”²⁴. However, this is not markedly distinct from the pattern of the most viewed films in other European nations — likewise in France, Italy, or Germany, films produced in America are considerably more popular.

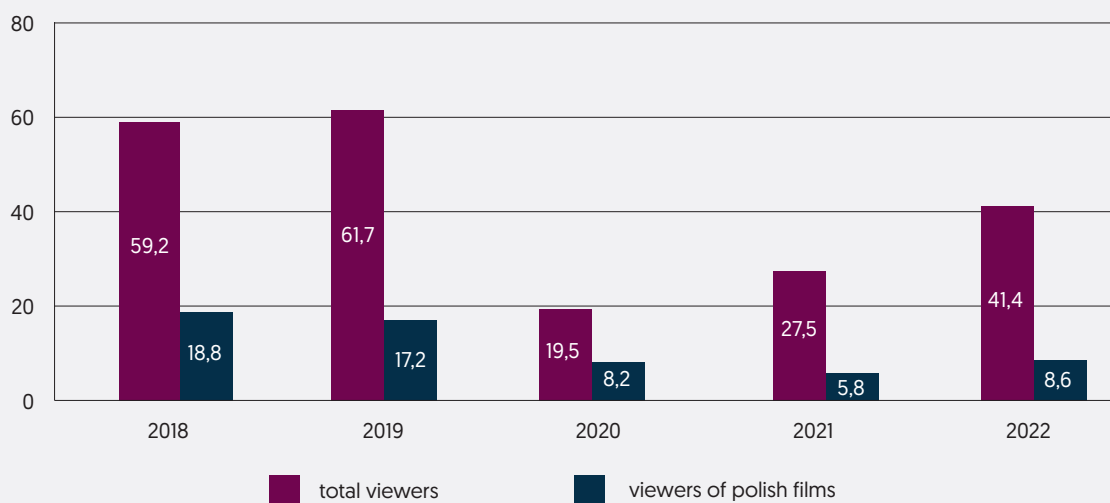
Figure 12. Total Budgets of Films Receiving PISF Funding Each Year from 2018 to 2022 (in PLN million), and the Amount of Funding in These Budgets by Film Genre in 2022 (%)



Source: Polish Film Institute.

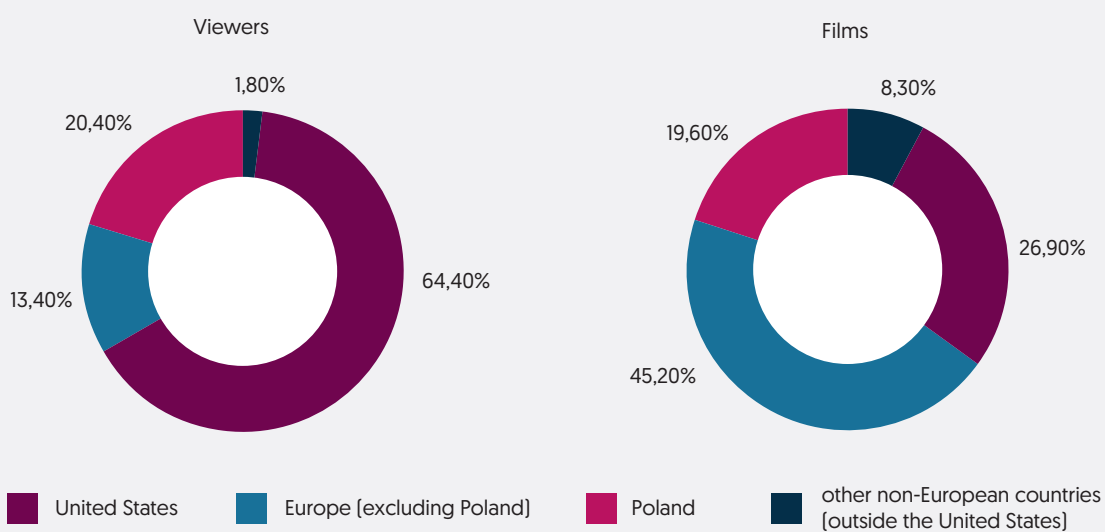
²⁴ Focus, Marche du Film 2023 and Central Statistical Office, Culture, and national heritage in 2022.

Figure 13. Comparison of Total Cinemagoers to Spectators of Polish Films



Source: Statistics Poland.

Figure 14. Structure of Productions and Viewership for Premiere Feature-length Productions by Production Countries in 2022



Source: Statistics Poland based on data from the Polish Film Institute. In the case of co-production, the film was attributed to the country of the first producer.

Main Trends Shaping the Polish and Global Audiovisual Production Market

The audiovisual production industry is a dynamic sector, subject to continual change, much like other areas of the economy. In the following section, we highlight the most significant phenomena presently impacting the industry's growth²⁵.

Impact of the Pandemic on Cinema and Film Production

The pandemic significantly impacted the cinema industry, resulting in reduced ticket sales, production delays and cancellations, as well as alterations to content distribution models. Although cinema attendance has been gradually rising since 2021, it has not yet reached the pre-pandemic levels. In 2022, approximately 657 million cinema tickets were sold in the UK and the European Union, in contrast to 403 million in 2021. The industry has been significantly affected by both Russia's invasion of Ukraine and inflation. The current poor economic climate may result in cutbacks in consumer expenses, including entertainment expenses like cinema tickets or subscriptions to streaming services. As a consequence, these trends may significantly reduce production budgets or the number of future productions.

In 2021, there was a 25% increase in film production in the European Union and the UK compared to the pandemic year of 2020. Poland experienced one of the largest increases in the number of films produced, primarily due to recommencing suspended projects. However, the number of productions in 2022 remains below pre-pandemic levels, with only 1,189 films produced compared to 1,221 in 2019.

Film Production and Climate Change

Another trend in audiovisual production is to minimise detrimental environmental effects. This entails creating audiovisual productions in sync with the environment while reducing their carbon footprint. This could be achieved through measures such as decreased electricity consumption or renting costumes and sets. Several noteworthy industry players, including the Polish Producers Alliance (KIPA) and the Polish Filmmakers Association, have endorsed the "Agreement for Sustainable Audiovisual Production — Film for Climate" manifesto in 2021. The initiative aims to promote eco-friendly norms in audiovisual production across Poland.

In 2023, the Gdynia Film Festival awarded the "Klimatyczny Film" prize for the second time in the festival's history to the two most environmentally conscious productions.

Artificial Intelligence in the Film Industry

The impact of artificial intelligence (AI) on the film industry is increasingly evident, bringing about many changes and streamlining filmmaking processes. AI proves to be applicable in all stages of production, from image editing to film creation and post-production and even being able to replace human actors. However, this trend poses significant challenges that the industry must face in the next few years, including major ethical dilemmas related to employment and copyright concerns. The strike by Hollywood actors and screenwriters in 2023 highlights concerns held by industry professionals about the implementation of AI. Consequently, numerous film premieres have been postponed until the following months.

Changes in Audience Preferences, and the Rise in Popularity of Streaming Services

In recent years, audience preferences have undergone significant changes due to political, cultural and social transformations, as well as the development of new technologies. This trend is expected to continue to strengthen. The increasing popularity of streaming services has made global productions more easily accessible. This has resulted in Polish viewers becoming more open to diversity, including different cultures and perspectives. Local content now faces tough competition with high-budget Hollywood blockbusters in attracting viewers. Consequently, the demands of the average Polish viewer are escalating, and marketing for domestic productions must become more captivating for audiences. Forecasts indicate that by 2027, there will be 18.4 million streaming service (SVoD) users in Poland, with an expected market penetration of 49.4%. Revenue from the streaming services sector is projected to hit USD 0.87 billion in 2023²⁶. Nevertheless, it is important to note that subscriber growth rates are likely to decrease since streaming service users will divide their subscriptions among several providers that cater to their specific requirements.

²⁵ Key trends were identified through interviews with industry entities, a CATI survey conducted among film producers, and by referencing the Yearbook 2022/2023 of the European Audiovisual Observatory.

²⁶ Data based on Statista.com.

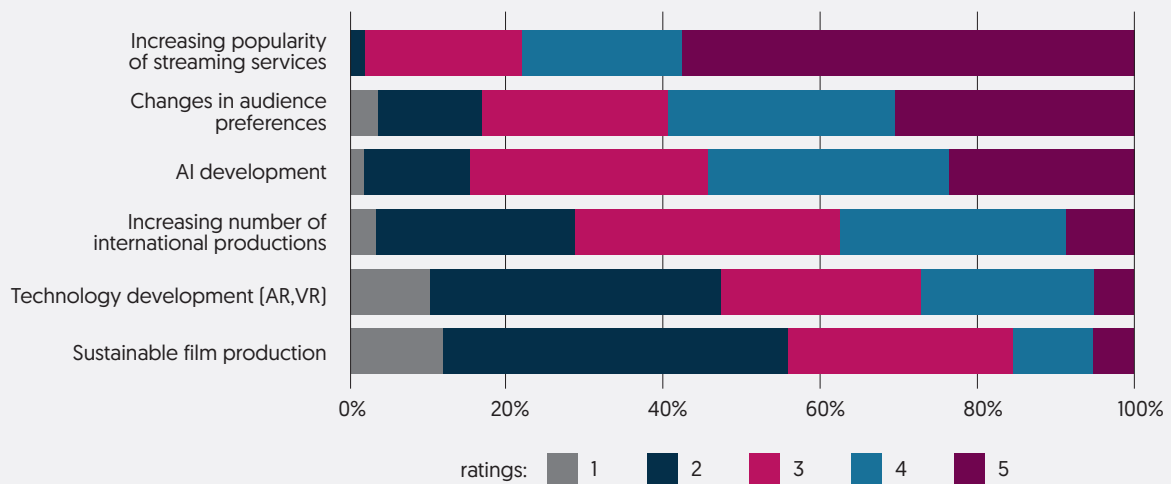
Based on the research conducted by the Polish Film Institute, audiences do not show a strong preference for foreign productions over Polish ones, but they do place a high emphasis on film's attractiveness. Recent financial data from ticket sales suggests that some genres that are specific to the Polish market may decline in popularity, with the exception of already established series like "Letters to Santa" or "Kogel Mogel".

Perception of Trends Within the Audiovisual Production Industry

The following are some insights from audiovisual industry players based on a survey conducted among Polish film producers²⁷. The survey participants have identified the three most influential trends that are expected to shape the growth of the audiovisual production industry in the

coming five years. These are: the soaring popularity of streaming services (58% of respondents rated this as 5; indicating a very high impact); shifts in audience preferences (31% of respondents rated it as 5; a very high impact), and the advancement of artificial intelligence (24% of respondents rated it as 5; a very high impact). As per the respondents, sustainable film production in response to climate change is rated as the least important trend (56% of respondents rated it as 1 — no impact or 2). This implies that the film industry will be impacted the most by demand, which pertains to the way in which content is consumed and consumer preferences. Conversely, new opportunities in production [international co-productions] and technologies [VR, AR, AI] will hold secondary importance. External factors, such as climate change, will be of lesser significance.

Figure 15. Perception of Trends Within the Audiovisual Production Industry



Source: Self-conducted study based on a survey carried out among members of the Polish Producers Alliance (KIPA) (n=59).

²⁷ Computer-Assisted Web Interview (CAWI) conducted among members of the Polish Producers Alliance (KIPA) between August and September 2023 (n=59).

Key Players in the Polish Audiovisual Production Market

There are roughly 300 organisations primarily engaged in producing films and television series within the Polish market²⁸. Over 160 of these entities are members of the Polish Producers Alliance [KIPA]. A collection of these organisations is outlined below in alphabetical order²⁹.

■ AKSON STUDIO

Sales revenues in 2022 — 103,8 mln PLN

Akson Studio was established in 1992. It is now one of the leading production houses in Poland. In addition to dozens of commercials, programmes, documentaries, and TV plays, it has successfully produced nearly 100 films and series over 30 years. Among them are such masterpieces as the Oscar-nominated “Katyń” (directed by Andrzej Wajda) or one of the biggest productions in the history of Polish cinematography “Miasto 44” (Eng. “Warsaw 44”, directed by Jan Komasa). The studio’s recent achievements include high-profile films by outstanding young filmmakers such as “Atak paniki” (Eng. “Panic Attack” directed by Paweł Maślona), “Jak najdalej stąd” (Eng. “I Never Cry”, directed by Piotr Domalewski), “W lesie dziś nie zaśnie nikt” (Eng. “Nobody Sleeps in the Woods Tonight” directed by Bartosz M. Kowalski) and the series “Sexify” (directed by Piotr Domalewski & Kalina Alabrudzińska).

■ APPLE FILM PRODUCTION

Sales revenues in 2022 — 14,6 mln PLN

Apple Film Production is one of the oldest independent producers in Poland, commencing operations in 1990. To date, the studio has produced numerous feature films, documentaries and series, resulting in over 300 national and international accolades. Most of the studio’s films are international co-productions, including collaboration with the BBC (“Dzwony wojny”, Eng. “The Passing Bells” and “Szpiegzy w Warszawie”, Eng. “Spies of Warsaw”) and companies from Germany, the Czech Republic and Austria.

■ ARTRAMA

Sales revenues in 2022 — 75,2 mln PLN

Artrama is a film and series production company founded in 1994. Its highly successful productions include long-running series such as “Na dobre i na złe”, “Barwy szczęścia” and “Na sygnale”, all of which regularly achieve record viewing figures during prime-time slots. Artrama works with renowned Polish filmmakers and actors and has received numerous awards from the Polish television.

■ ATM GRUPA

Sales revenues in 2022 — 130,8 mln PLN

ATM GRUPA S.A. is the largest Polish independent production studio. Founded in 1992, it is the only company in the industry with public company status listed on the Warsaw Stock Exchange. The studio’s portfolio includes popular titles such “Świat według Kiepskich” (Eng. “The Lousy World”), “Ranczo” (Eng. “The Ranch”) and “Wataha” (Eng. “The Border”), which was the only Polish series to be featured in The Times’ ranking of the 50 best international series. Productions are broadcast on nationwide television, premium channels and VOD services.

²⁸ Estimation derived from the roster of subsidies granted by the PFI through the Operational Programme “Film Production” and Incentives Scheme from 2017 to 2023 (as of February 2023).

²⁹ Company revenues were sourced from the financial statements that the companies published. The compilation of the list was carried out in partnership with the Polish Producers Alliance [KIPA].

> Key Players in the Polish Audiovisual Production Market

■ AURUM FILM

Sales revenues in 2022 — 45,9 mln PLN

Aurum Film is one of the leading production companies in Poland. It specialises in film and TV production. The company has produced noteworthy titles such as “Freestyle” by Maciej Bochniak, “Wszyscy moi przyjaciele nie żyją” [Eng. “All My Friends are Dead”] by Jan Belcl, “Ostatnia rodzina” [Eng. “The Last Family”], the Oscar-nominated film “Boże Ciało” [Eng. “Corpus Christi”] by Jan Komasa and “Żeby nie było śladów [Eng. “Leave No Traces”] by Jan P. Matuszyński”, as well as “Kos” [Eng. “Scarborn”] by Paweł Maślony.

■ FILM PRODUKCJA

Sales revenues in 2022 — 46,2 mln PLN

Film Produkcja is a production company that specialises in the creation of feature films, short films, documentaries, animated films, and commercials. The company’s portfolio includes productions like “Jeź Jerzy” [Eng. “George the Hedgehog”], “Mr. Jones”, “Volka”, “Mój sąsiad Adolf” [Eng. “My Neighbour Adolf”], and more.

■ HOUSE MEDIA COMPANY

Sales revenues in 2022 — 37,8 mln PLN

House Media Company is an independent production company that was established in 2009. The company is involved in film and advertising production, as well as the creation of television projects and social campaign spots. House Media Company has produced films like “Imago” and “Różyczka 2”, as well as the series “Ślepnąc od świateł” [Eng. “Blinded by the Lights”] and “1983”.

■ LAVA FILMS

Sales revenues in 2022 — 4,1 mln PLN

Lava Films is an independent production company based in Łódź, Poland, established in 2010. The company collaborates with emerging and established filmmakers from both Poland and abroad, with a primary focus on feature film production. Some of Lava Film’s notable productions include “Cicha Ziemia” [Eng. “Silent Land”] directed by Agnieszka Woszczyńska, “Sweat” by Magnus von Horn, and “Śniegu już nie będzie” [Eng. “Never Gonna Snow Again”] directed by Małgorzata Szumowska.

■ MADANTS

Sales revenues in 2022 — 3,7 mln PLN

Madants is a Warsaw-based production company founded in 2015 that aims to produce independent films with distribution potential and access to international festivals. In addition to producing domestically, the company also engages in international co-productions. In 2022, two of Madants’ productions premiered at Cannes Film Festival — Agnieszka Smoczyńska’s “The Silent Twins” and the Ukrainian co-production “Pamir”, directed by Dmytro Sukholotyky-Sobchuk.

■ MTL MAXFILM

Sales revenues in 2022 — 54,7 mln PLN

MTL Maxfilm is among the largest independent film producers in Poland, with its origins dating back to 1991. The company has consistently delivered productions that achieve record viewership figures in theaters, on television, and via streaming platforms. Some of MTL Maxfilm’s most renowned works include the TV series “M jak Miłość” and “Kryminalni”. The company collaborates with all major TV stations in Poland and has produced numerous blockbuster films, including “Nigdy w życiu” [Eng. “Never Ever”], “Tylko mnie kochaj” [Eng. “Just Love Me”], “Oh Karol 2”, “7 rzeczy, których nie wiecie o facetach”, and a three-part continuation of the iconic Polish film “Kogel Mogel”.

■ NEXT FILM

Sales revenues in 2022 — 39,4 mln PLN

Next Film is a Polish film producer and distributor that has been active in the film industry since 2017. Their inaugural production, “Plan B”, directed by Kinga Debska marked their entrance into film production. Following this success, they premiered their second in-house production, “Johnny”, directed by Daniel Jaroszek, in 2022. In addition to their in-house projects, Next Film’s portfolio encompasses commissioned productions for streaming platforms. One notable example is the comedy “Jeszcze przed świętami” [Eng. “Delivery by Christmas”], produced for Netflix.

> Key Players in the Polish Audiovisual Production Market

■ OPUS FILM

Sales revenues in 2022 — 28,2 mln PLN

Opus Film, founded in 1991 and headquartered in Łódź, is a prominent production company known for creating advertising films, feature films, and global television productions. Since 2002, the studio has been actively involved in producing its own feature films, as well as participating in numerous international co-productions. Their film "Ida", directed by Paweł Pawlikowski, received the Oscar for Best Foreign Language Film in 2015, while "Zimna wojna" [Eng. "Cold War"] was nominated in the same category in 2019. Several of their productions can be streamed on platforms like Netflix and Canal+. Opus Film operates a subsidiary, Opus TV, which was established in 2003. Opus TV has produced popular series such as "Belfer3", "Królowa" [Eng. "Queen"], and "Kruk" [Eng. "Raven"], generating revenues of PLN 50.4 million in 2022.

■ PLATIGE IMAGE

Sales revenues in 2022 — 93,6 mln PLN

Platige Image is a well-established production studio with a history spanning 25 years, originally specialising in the production of commercials and music videos. Over time, the studio has diversified its portfolio to include short films and the creation of 3D settings for theatre performances, along with expertise in visual effects. Platige Image collaborates with over 300 talented artists, including directors, art directors, graphic designers, VFX artists, and producers. Notably, their portfolio features works like "The Witcher" and "Another Day of Life".

■ TELEMARCK

Sales revenues in 2022 — 153,5 mln PLN

Studio Telemark, established in 2003, is dedicated to the development and production of documentaries and TV series. The company boasts an impressive portfolio, including creative documentaries such as "Wiatr: Thriller dokumentalny" [Eng. "The Wind: A Documentary Thriller"] directed by Michał Bielawski and "Over the Limit" by Marta Prus. Studio Telemark is also known for its premium series like "Bez tajemnic" [Eng. "Without Secrets"], "Pakt" [Eng. "The Pact"] for HBO Europe, and "Nielegalni" [Eng. "The Illegals"] for Canal+. In addition, the company has made contributions to the realm of artistic cinema with works like "Interior" directed by Marek Lechki.

■ WATCHOUT STUDIO

Sales revenues in 2022 — 49,1 mln PLN

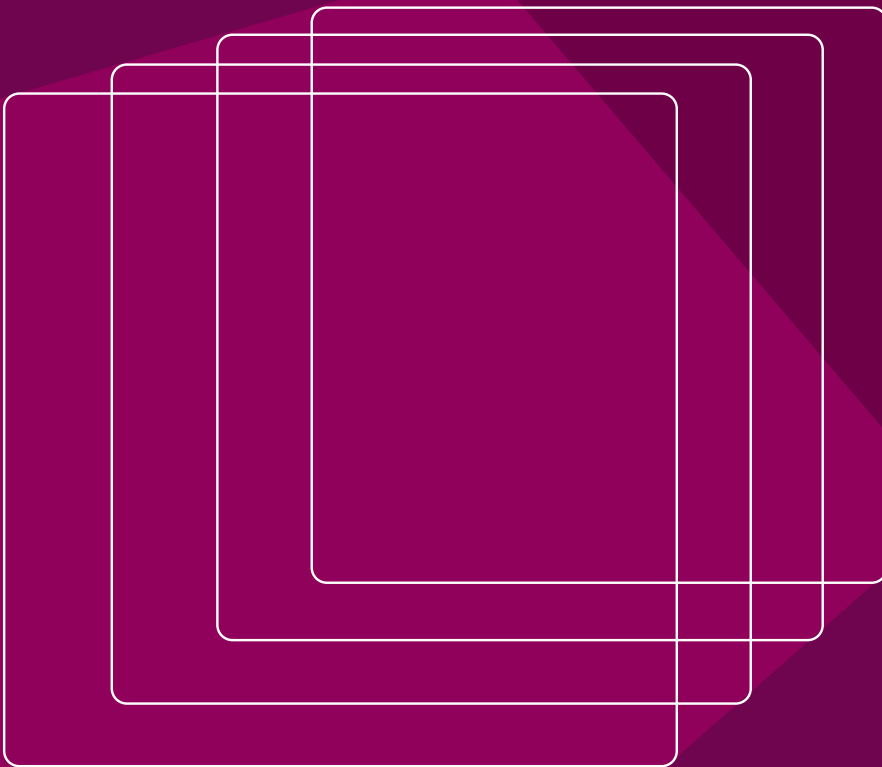
Watchout Studio, founded in 2007 by Piotr Woźniak-Starak and currently led by Krzysztof Terej since 2019, holds a prominent position as a leading production house in Poland. The studio specialises in the production of feature films, series, and advertising spots. Notable works from Watchout Studio include the films "Bogowie" [Eng. "Gods"], "Sztuka kochania. Historia Michaliny Wisłockiej" [Eng. "The Art of Loving. The Story of Michalina Wisłocka"], "The Coldest Game", and the series "Infamia" ["Infamy"] created for Netflix.

■ WFDiF

The Documentary and Feature Film Studio (WFDiF), established in 1949, stands as one of Poland's oldest and largest studios dedicated to documentary and feature film production. In 2013, it underwent a transformation into a national cultural institution following the regulation of the Minister of Culture and National Heritage. Throughout its 70-year history, the studio has produced numerous acclaimed works, such as "7 uczuć" [Eng. "7 Emotions"] by Marek Koterski and "Róża" [Eng. "Rose"] by Wojciech Smarzowski. WFDiF also actively participates in various international co-productions.

2.

Financing Audiovisual Production in Poland — Challenges and Opportunities



From Idea to Implementation – the “Supply Chain” in the Audiovisual Production

The production of films and television series is a profit-driven commercial venture, akin to industrial production or service provision. However, this is where the similarities conclude. Unique cash flows and dependencies exist within the “supply chain”, necessitating nuanced attention while producing films and TV series.

It begins with a script - the literary foundation for the development of a project's business plan. The quality of the story and its execution method relies upon the script. During script assessment, the producer takes into account not only the story's potential, but also the value of each scene and the appropriateness of the costs involved. It is recommended that the distributor assesses the expected audience size and proposes methods to optimise attendance potential for the project. The script is also a determinant factor for the post-production budget. Once the script has received approval and the director and cinematographer have been selected as primary personnel on set, it is important to commence discussions with the post-production contractor. In the digital age, good collaboration between post-production and the set design, costume and make-up departments is essential to optimise costs, with certain post-production tasks being carried out on location during shooting. Moreover, post-production impacts distribution globally. Specifically, films must meet precise image and sound standards to gain admission into cinemas, television networks, and streaming platforms.

The production of a film and series can be divided into three main stages:

Development

It encompasses all tasks that take place prior to principal photography. This phase includes developing a treatment, which is a 10-20 page “plot summary that functions as a blueprint for the script's future structure. It usually features character outlines, occasional dialogue elements and a synopsis of the characters' relationships”³⁰. The script is then further developed based on the initial treatment.

Once the creative and literary aspects have been completed, it is modified to align with the current business context. This includes assessing the expense of each scene and the projected audience turnout for the film.

At the same time, copyrights are secured, consents and permits are obtained, and cooperation established with the most critical contributors, particularly the director and cinematographer. Researchers are additionally involved, conducting queries and research to ensure that the script, set design, and costume design are aligned with the reality where the action takes place.

The producer's main task is to estimate costs and secure funds to cover expenses. Development can last between nine and twelve months.

Pre-production

Following this, preparations for filming commence. This requires scouting locations, developing a detailed shooting schedule broken down by calendar day, conducting scene rehearsals, and consulting with those responsible for editing and sound. Careful planning is crucial to guarantee cost predictability and efficiency during filming.

The pre-production stage is an integral part of the development stage and takes two to four months to complete.

Principal Photography

This is the shortest but most cost-intensive stage, with producers often spending up to 70% of the film's total budget over a period of 1.5-2 months³¹. It is an intense period, involving various organisational challenges during which the producer must meticulously plan and execute according to predetermined assumptions. Each day of filming follows a strict schedule, which frequently involves the filming of various scenes at a specific location. To meet production demands, thorough planning is essential for equipment, set design, costumes, make-up, coordinating extras, and the work of the director, cinematographer, lighting, sound, and acting departments.

³⁰ Maciej Karpiński, “Screenplay: an imperfect reflection of the film”.

³¹ While this is a typical model assumption for feature films, there are productions with extended shooting periods. This is common for documentaries, or when filming must be done at separate times of the year.

Each aspect has its own designated position within the cost estimate. Shooting schedules are subject to uncontrollable factors, such as weather conditions, unavailability of specific locations, and other unforeseeable events. Film sets typically incur costs of PLN 150,000-200,000 or more per shooting day³², hence the need to insure against unexpected incidents. Further information on film set insurance is discussed in the following sections of this report.

Due to the unpredictability of events that can disrupt the filming process, producers should allocate contingency funds for unforeseen expenses. Preferably, a contingency reserve equal to 10% of the shooting budget should be set up. However, in the context of the Polish film industry where cash flow challenges are common, it is more common to allocate around 3%³³.

Post-production

Post-production should be planned before filming commences. This involves the proper backup of photographic materials, conversions to previews — so-called dailies — and preparation of files for editing. Files from each shooting day must be securely stored in triplicate on two varying mediums and be additionally insured, as the loss of any material, even from a single part of a shooting day, is unwarrantedly expensive and deemed an unacceptable risk in the realm of film production.

The next important component in filming planning is the involvement of a VFX supervisor in order to properly film shots that require subsequent computer intervention. Nowadays, there are hardly any films without special effects. Post-production includes activities such such as image editing, conforming process, colour correction, production of digital special effects, sound design, music recording, sound mixing, as well as the creation of a set of file masters for cinemas, streaming services and television. The final stage of post-production is archiving files on LTO tapes.

Distribution

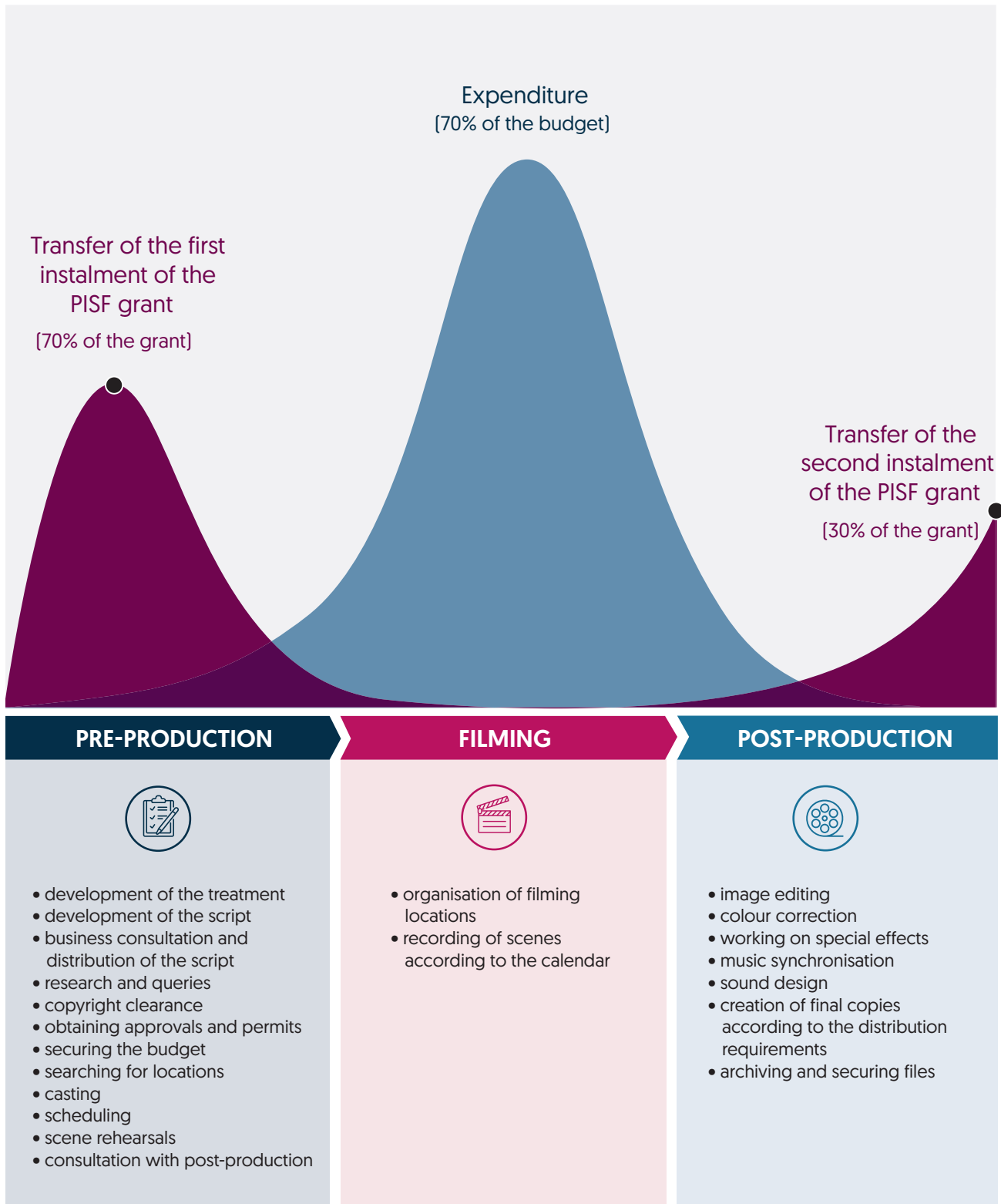
This stage is the point at which the audience authenticates the work. Depending on the chosen distribution strategy, films can be exhibited at festivals, cinemas, streaming services, or on paid or free-to-air television. Additionally, distribution entails the sale of physical media, previously on cassettes, and now on Blu-ray and DVD. From a legal perspective, the distributor obtains the rights to utilise the film, including creating copies and generating versions in languages other than the original. They may also possess the right to sub-license those rights to other entities for the purpose of distribution. Investors, who are interested in the film's visibility and contribute to its promotional efforts, may financially support distribution. Furthermore, P&A budget sponsors [short for Printing and Advertising] may fund distribution campaigns. In exceptional circumstances, donors may also be involved. Lenders might assume a more significant role at this point, given that P&A budgets perform comparably to marketing budgets in other sectors³⁴.

³² The amount most frequently mentioned by producers during in-depth interviews aligns with Kamil Przełęcki's calculations, drawing from his 30 years of industry experience.

³³ This estimate is derived from in-depth interviews with producers.

³⁴ The conclusions derive from in-depth interviews with film producers.

AUDIOVISUAL PRODUCTION CHAIN



Business Models for the Production and Distribution of Audiovisual Content

Films and TV series can be produced independently whereby the producer is responsible for raising a budget from various sources of funding, or they can be commissioned by broadcasters, streaming services, or other production companies. Irrespective of the production model, films and television series usually follow a recoupment schedule. This schedule outlines how revenues generated from exploiting the project will be distributed among one or more beneficiaries³⁵. Every film or series possesses a distinctive financing structure, a team dedicated to its production, and a specific recoupment schedule. The entities that provide financial support and the sales agents, production partners, and creators all benefit from revenues generated by domestic and international distribution, as they have a stake in the earnings. The following section provides a detailed account of the principal funding sources, together with an examination of their contributions to the recoupment programme. An explanation of the operational protocols involved in “contracted” production is also included.

Co-production

Poland is part of the European market where co-productions are a common business model. The model's foundation lies in the connections created among various countries, making international film festivals a crucial platform. These festivals offer producers ample opportunities to establish new contacts, which may lead to future business prospects. One significant advantage of international co-productions is the merger of two projects, enabling the utilisation of funding sources from different countries. This often involves several elements, such as filming overseas, with a producer from a different country overseeing this section. The reason for this strategy is to access a wider range of funding options and make use of support available in different countries.

In a co-production setting, the lead producer coordinates the project, assumes financial and artistic responsibility, determines funding sources and distribution methods, and remains involved with the final product from start

to finish until the copyright either expires or is transferred. Conversely, the minority producer is responsible for a specific aspect of the project and remains involved throughout its life cycle.

Within this structure, an opportunity is available for investors who, unlike producers and co-producers, are tied to the project only until they have realised their expected profit. Following the realisation of the expected profit, their production shares are transferred to the producers and co-producers. In exchange for their exit from the project, the investors usually receive a priority share of the profits, commonly known as a “priority lane”. Mostly, funds and private investors belong to this investor group.

There is an additional group of contributors, referred to as sponsors, who are driven by promotional advantages rather than financial gain. The rest of the budget is supplied by donors, such as public institutions like the Polish Film Institute (PISF). Unlike other entities, donors do not provide funds that include VAT, which poses a substantial issue that requires resolution at the cash-flow level. Further details on this subject can be found in the later part of the report.

License sales

Occasionally, producers sell licenses to obtain financing for film production. These licenses, which grant the right to profit from the distribution of a film or series, are typically available during the pre-production stage. They may also be sold later in the film's life, after its theatrical release. Successful theatrical runs usually result in higher licensing fees than during the production stage. The elevated cost mirrors the upsurge in interest towards the film along with the promotional endeavours that have reinforced its visibility. However, if the producer chooses to sell the licence before the film or series is completed, he ensures the availability of a production budget while at the same time foregoing a portion of the distribution revenues within the designated field of exploitation for the duration of the licence granted³⁶.

³⁵ “Exploitation” and “fields of exploitation” are commonly used copyright terms within the creative industry. They define the techniques employed to use an original work, such as photocopying, printing, recording, reproduction, magnetic recording, and other methods of mass production. In the context of audiovisual production, the original work may be a film, and the field of exploitation could include distribution amongst cinema networks, VOD platforms, or DVD sales.

³⁶ Producers frequently opt to sell licenses to broadcasters, including terrestrial television, cable, and satellite, during the production stage. Nonetheless, this strategy may hinder subsequent distribution efforts as distributors seek to secure the full package of rights to the film. Occasionally, a license may also be granted during the production stage to foreign sales agents responsible for selling the film rights in specific territories.

Original Productions

This is a form of film or series production that is made to order. The work is created within a predetermined budget at the request of a streaming service or broadcaster. This method enables an independent producer, known as an executive producer, to secure the entire budget, guarantee employment for his crew and, in theory, eliminate funding concerns. However, in practice, unforeseen circumstances may arise during filming that increase the original budget. In cases such as these, the final result is contingent upon the contract terms and the relationship with the purchaser, or on some other contingency provision. Such provision may include releasing an amount if the production stage budget is exceeded.

Small-scale producers are also exposed to the risk of the purchaser withdrawing from the project, as observed in the Polish market. Despite receiving financial compensation, the producer's time invested into the failed project resulted in missed opportunities to establish a stronger presence in the market.

One limitation of this model is that the producer relinquishes the revenue generated from the distribution

of the work, resulting in insufficient funds for further investment. Furthermore, due to the broad reach of streaming services, they can potentially disregard the subtleties of local culture in their productions as they strive for a universal understanding of the message across multiple cultures.

Productions Commissioned by Television Networks

Multi-episode television series productions provide a range of features that improve cash flow management, such as permanent studio locations, consistent sources of funding and long-term contracts. Furthermore, television networks frequently invest in co-productions through licensing, as elaborated in the "Co-productions" and "Originals" sections.

Service Provision

This refers to carrying out part of a production on behalf of another producer. In this scenario, one producer arranges several days of shooting at the request of another producer, including location scouting, crew assembly and set preparation. Profits in such endeavours come from the client rather than from the distribution of the work.

PRODUCTION OF TELEVISION SERIES

The production of TV series in Poland typically relies on a single funding source, whereby the television network or streaming service funds 100% of the production costs and pays margins to the producer.

However, one of Central and Eastern Europe's most distinguished production companies, Apple Film Production, has pioneered co-production models. Their series "Zasada przyjemności" is a joint collaboration involving the plot and production from Poland, the Czech Republic, and Ukraine. In this agreement, a Ukraine-based independent producer has acquired the rights to broadcast the series within their territory, with the local television network in the Czech Republic acting as a co-producer.

The primary difference between co-production models for films and TV series is that in the case of feature films, independent producers can access funding from various institutions in numerous countries via the application process. However, such funding opportunities may not always be readily

available when it comes to TV series production³⁷. Therefore, collaborating directly with a broadcaster from a particular market may be a more practical option in terms of financial considerations, compared to partnering with an independent producer.

Another example of a television series co-production is the "Sortownia" project, which emerged from a collaboration between CANAL+ and Polsat. Despite both companies operating in the same domestic and language-based market, they employ distinct strategies to appeal to their audiences. CANAL+ is a subscription-based, scrambled television service, whereas Polsat provides terrestrial television accessible to all viewers. Both broadcasters operate their own streaming platforms, and their viewership demographics differ. Consequently, they may employ distinct methods of content delivery. During June 2023, the show was accessible through multiple outlets, including the Polsat Box Go service, the CANAL+ Premium channel, and the CANAL+ online streaming platform. It is also possible that this series will be broadcast on Polsat terrestrial television in the future.

³⁷ However, the series producer may apply for a tax rebate or cash rebate.

ANIMATION

The production cycle for animation is much longer than for feature films. This is due to the complexity of the animation production technique, as well as the difficulties encountered in acquiring funding³⁸.

Animation follows a unique production cycle compared to that of feature films or TV series, resulting in distinct cash flow characteristics. In animation, post-production is amalgamated into the production process, forming a combined stage. In animation, the production stage does not interrupt the cash flow as it does in feature film production. Therefore, expenses are spread evenly throughout the duration of the animation project³⁹.

Animation follows a unique production cycle compared to that of feature films or TV series, resulting in distinct cash flow characteristics. In animation, post-production is amalgamated into the production process, forming a combined stage. In animation, the production stage does not interrupt the cash flow as it does in feature film production. The expenses for the entire animation project are evenly distributed throughout its duration.

A budget of PLN 10-15 million is estimated for a 52-episode animated series, while a feature-length animated film typically costs PLN 6-20 million. Short animations fall between PLN 400,000 and PLN 1 million, and medium-length animated films between PLN 800,000 and PLN 1.5 million⁴⁰.

VR

Virtual reality (VR) offers a simulated experience of an alternate world through electronic devices. The devices rely on tracking the user's position and use three-dimensional displays positioned close to the user's eyes. In the field of audiovisual production, VR is being used as a new storytelling tool.

The conventional categorisation into pre-production, production and post-production phases remains relevant for VR productions, while acknowledging certain unique elements.

Project scheduling necessitates mastery of VR production processes. Notably, in VR, production and post-production are more closely integrated, overlapping with each other. The development stage of a VR project demands significantly greater financial investment than a conventional film. VR distribution is considerably more intricate, with each viewer requiring access to a VR headset, an investment cost of thousands of zlotys. Furthermore, new VR gadgets continuously enter the market, necessitating updates to the VR experience to remain compatible, a current funding challenge for the producers at hand.

Audiovisual Production Support System in Poland

The production of films and series has an importance that goes beyond the mere generation of profit, as it plays a vital role in shaping culture, fostering aesthetics, and transmitting values. Thus, institutions have been established to identify and financially support the most valuable works in the industry.

Besides offering interesting job opportunities, the film industry contributes to the economic, social, and cultural development of the places where filming takes place. Therefore, these regions and cities actively aim to attract filmmakers, thereby expanding the pool of production funding opportunities. Below, we outline the key institutions and mechanisms that support culture-making film production in Poland.

³⁸ The information derives from an in-depth interview with an animation producer.

³⁹ This is a common scenario, however certain animations possess production features and financial aspects more similar to those of a feature film.

⁴⁰ The information and figures presented in the text box derive from in-depth interviews conducted with Polish producers of animated films.

Polish Film Institute

The Role of the Institute

The Polish Film Institute (PISF) aims to offer financial assistance for film production, allowing for artistic freedom and optimal artistic outcomes. The institution is financially supported by contributions from cinema owners, film distributors, streaming services, and cable television providers, as well as television broadcasters. These resources are distributed through grants, guarantees, loans, scholarships, and awards, as detailed in the Operational Programmes unveiled for specific years by the Director of the Polish Film Institute.

The Polish Film Institute co-finances a variety of projects across different areas of the film industry through its programmes. These include funding for film project development, production, distribution, promotion of Polish cinema, and popularising film culture. Furthermore, the Institute extends its support to Polish community projects. The Polish Film Institute is dedicated to fostering the growth of the independent film sector in Poland, with an emphasis on supporting small and medium-sized entrepreneurs in the industry. Its programmes are designed to nurture emerging talent and provide financial support for film festivals and related events.

One motivation behind the creation of the Polish Film Institute was to reduce market risk for films that are important to Polish cultural heritage and contribute to the advancement of society and culture. Therefore, PISF is not liable for a project's success in terms of the implementation or commercial outcomes. However, projects that receive support from the institute must show cultural and artistic merit. The grant from the Polish Film Institute is recuperated only once all the other investors have received their contributions and any generated profits from their agreements. Upon successful reimbursement of the grant, PISF no longer takes part in profit distribution, like any other investor.

Subsidies

The PISF offers co-financing to feature, documentary, and animated films, covering up to 50% of their eligible costs. It may provide up to 70% financing for challenging projects. In international co-productions, a local producer must pay at least 20% (for bilateral co-productions) or 10% (for multi-party co-productions) of the total project costs. The local producer is required to only make a minimum artistic contribution to the project.

Subsidies are allocated based on the Operational Programmes outlined annually. In order to secure funding, producers must fulfil all application-related formalities and undergo an artistic and substantive project evaluation conducted by experts appointed by the Polish Film Institute. The Director of the Polish Film Institute ultimately decides on the allocation and level of funding, taking into account expert opinions during the decision-making process.

Incentives — Cash Rebate

The film and series production support system offered through the PISF's "incentives" programme operates via cash rebates. Eligible expenses incurred during production in Poland are reimbursed at a 30% rate. State budget funds provided for the audiovisual production support are distributed throughout the year until fully utilised. Animated production is allocated at least 10% of the annual budget. These incentives are accessible for both Polish productions and international co-productions, as well as services provided to foreign productions. A cultural qualification test, minimum expenditure thresholds, and limits on individual projects and applicants are imposed. No fixed application deadlines apply, and applications are processed on a first-come, first-served basis until the budget for the year is depleted. Financial support will only be disbursed following the submission and successful verification of the final production report or stage of work for which the support was granted⁴¹.

Role of BGK

The Polish Development Bank, BGK fulfils the role of trustee, with the responsibility of managing an account to which the Polish Film Institute transfers subsidies. This account grants producers, who have received the subsidy, access to the funds. The Polish Film Institute's stance is that this account cannot be assigned⁴².

BGK also serves as an intermediary for guarantees directed towards the creative industry, including the now suspended Creative Europe programme⁴³. These guarantees could cover up to 80% of the loan capital granted to creative industries, including film producers. Nevertheless, BGK lacked the authority to decide on the approval of a guaranteed loan by a commercial bank. Our bank survey found that no producers received these loans. Instead, they were exclusively granted to entities whose activities were related to software development or supported artistic performances, as per the PKD classification.

⁴¹ Source: PISF <https://pisf.pl/zachety-informacje/>

⁴² The Act on financial support for audiovisual production does not mention the possibility of assigning an escrow account.

⁴³ The Creative Europe programme, which was defined in the previous EU financial perspective, serves as the basis for the guarantees issued for individual systems by the European Investment Fund. In the current financial perspective, programmes in individual countries remain effective only if the national operator (BGK in Poland) has signed a contract with the EIF. The Polish agreement expired at the end of 2021. Currently, the EIF guarantee mechanism, commonly referred to as Invest EU, offers guarantees for the creative sector. It is worth noting, however, that Poland has not established its own guarantee scheme designed for the creative industries. Entrepreneurs operating within the creative sectors can instead take advantage of a selection of guarantees intended for small and medium-sized entrepreneurs, one of which is the *de minimis guarantee*.

Regional Funds

“Regional film funds are an important component of economic and social policy, contributing to the improvement of the standard of living of the local population, the well-being of the community and the regions as a whole”, said Jonathan Davis, a British expert and adviser to the British Film Council who was involved in the establishment of regional film support mechanisms in Poland.

Filming can involve local communities, allowing them to participate as extras or experts. From a regional economic perspective, filming represents a potential source of income that can translate into tangible profits. Film crews use local hospitality and catering services, rent locations, and make essential purchases from local shops during filming. In addition, featuring the region in a film serves to promote its tourism assets.

Regional film funds are being set up to revitalise local communities, promote the region and boost the local economy. These funds offer support to filmmakers in exchange for a part of their footage being shot in their area. Such funding opportunities are usually offered through calls for proposals, which are often less complex than those of the PFI. Support from regional film funds takes two forms. The more common approach is the co-production of a film, where the contributors share in the revenues from the distribution of the film or benefit from the prestige associated with premieres and film awards — a model exemplified by the Gdansk Film Fund. An alternative, albeit less common, mechanism is the “purchase of a promotion service”, as observed in the Lublin Film Fund. 37% of Polish producers consider funding from regional film funds as an important source of financial support for film production⁴⁴.

Co-financing from regional funds, like co-financing from the Polish Film Institute, is limited to a maximum of 50% of the total cost of the project. In cases where a project receives support from both the Polish Film Institute and regional funds, the combined co-financing cannot exceed 50% of the film’s budget. However, within the category of particularly challenging film projects, this limit may be increased to 70% or, in exceptional cases, to 90%.

There is also an important business dimension to consider. Funds that participate in recoupment schemes are primarily focused on generating revenues and profits from the films they financially support. Companies operating under this model have developed economic evaluation methods for assessing films and effective techniques for gauging the likelihood of a project’s successful completion. A comprehensive description of this expertise is provided later in this report.

Eurimages

The European Cinematography Support Fund, known as Eurimages, supports film production by means of a conditionally repayable, interest-free loan. Repayment of the loan depends on the income generated by the supported projects. Funding is granted based on various criteria, including a cultural assessment. To be eligible, a project must have an international dimension and involve at least two independent producers from different Member States of the Fund. The cumulative contribution of co-producers from countries outside the Fund cannot exceed 30% of the total co-production budget. The support provided by the Fund is limited to EUR 500 000 and represents a maximum of 17% of the production costs for fiction and animation films and 25% of the production costs for documentaries⁴⁵.

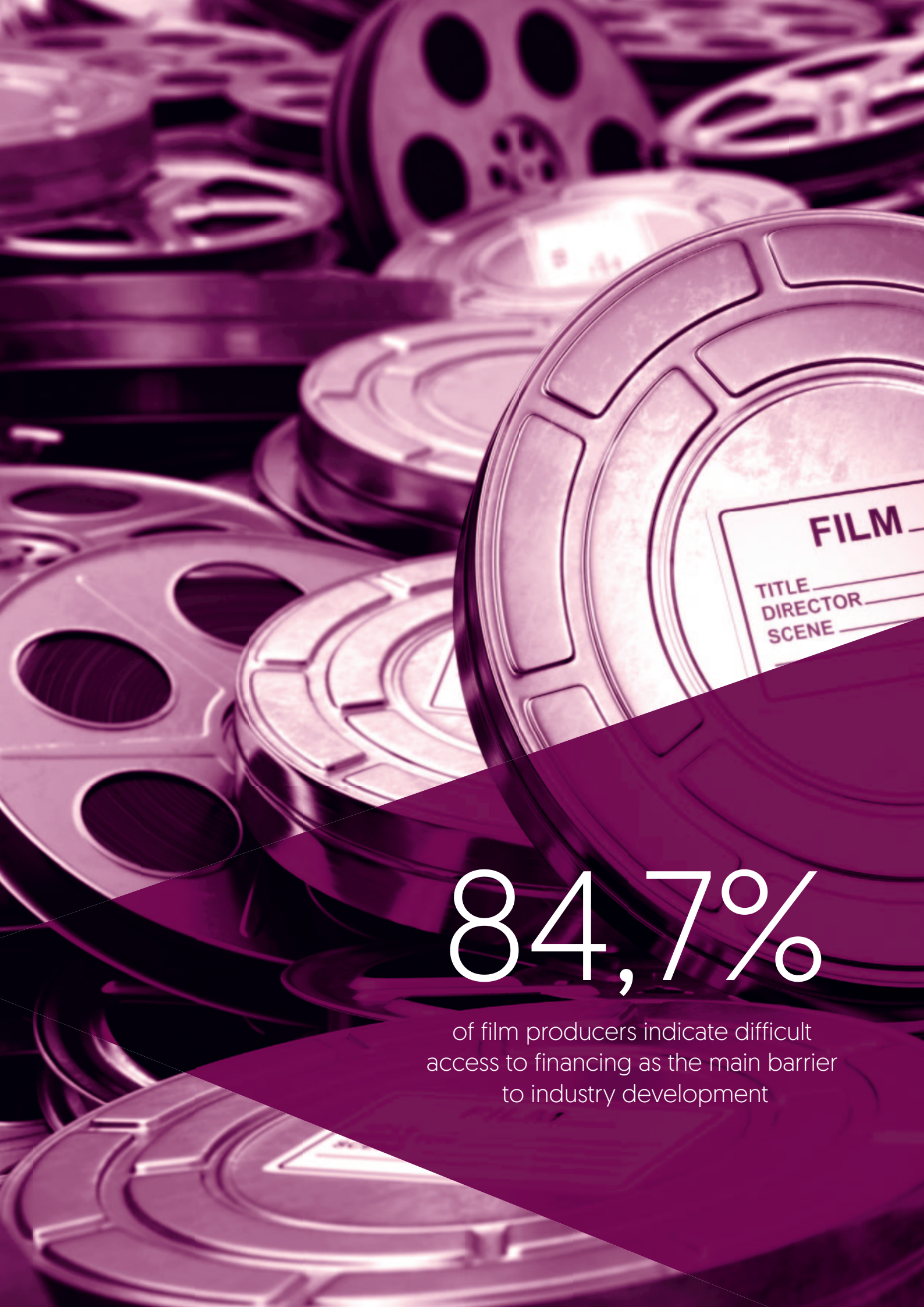
Polish-German Film Fund

Through the Polish-German Film Fund, filmmakers can secure up to EUR 70,000 for project development and EUR 150,000 for the production of the film. To be eligible for funding, a co-production agreement must be concluded between at least one Polish producer and at least one producer based in Central Germany or Berlin-Brandenburg. Producers from third countries may also be involved. The financial contribution of each producer to the total project costs must amount to at least 20%, including the amount of the grant⁴⁶.

⁴⁴ Computer-Assisted Web Interview (CAWI) conducted among members of the Polish Producers Alliance (KIPA) between August and September 2023 (n=59).

⁴⁵ Eurimages: Co-production Support, <https://www.coe.int/en/web/eurimages/coproduction> [access: 23.10.2023].

⁴⁶ German-Polish Film Fund: Application Rules for Film Productions. https://pisf.pl/wp-content/uploads/2020/03/Priorytet_IX_-_Tryb_naboru_dla_produkcji_filmowej_2017_12.12.pdf [access: 23.10.2023].



84,7%

of film producers indicate difficult access to financing as the main barrier to industry development

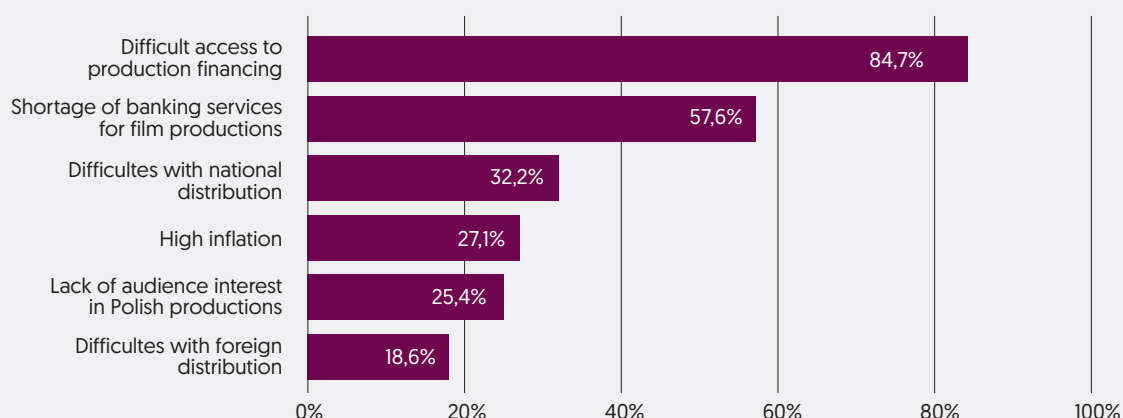
Cash Flow Challenges in Film Production

The production of a film or a series is always a major undertaking, involving significant costs. Producers in Poland highlight the lack of readily available commercial instruments to bridge the financing of film production, specifically tailored to the sector's particular needs, which distinguishes the Polish market from other European counterparts. The limited understanding of the functioning of audiovisual industry entities by financial institutions significantly reduces the competitiveness of Polish producers. 84.7% of producers cite difficult access to financing as the main obstacle to the growth of the industry, and 79.6% of respondents have experienced problems with financial liquidity. These challenges have a detrimental impact on the film production process in Poland. Liquidity problems, as pointed out by producers themselves, may result in the need to abandon other projects, delays in meeting current financial obligations or budget cuts due to a lack of investment opportunities. Furthermore, these challenges are directly linked to Poland's perceived lower position in the global audiovisual production market, as seen through the lens of producers⁴⁷.

Film production cost estimates typically amount to around 1,000 items. For smaller productions, the figure may drop to 700, while large-scale projects can reach up to 1,500 items⁴⁸. Some costs are one-off, such as the acquisition of licences, while others are sporadic, such as the remuneration of the director. There are also costs that are specific to particular stages of production, such as the remuneration of the technical crew during filming. In the field of film production, costs are usually incurred irregularly and may not coincide with the timing of financing instalments. This is not unique to Poland — it is typical of the European market.

Independent film producers who have been in the industry for many years have developed strategies to manage their cash flow. They shift funds, using revenues from some productions to cover the costs of others. This practice adds complexity to the film production process. Companies that cannot afford such financial shifts are forced to negotiate deferred payment dates with the film crew. However, this approach comes at a cost, as the producer usually has to offer higher compensation for deferred payments. It may also limit their freedom to choose skilled professionals, as not all may agree to deferred payment. Ultimately, this can affect the overall quality of the production.

Figure 16. Main Obstacles and Barriers to Audiovisual Industry Development



Source: Self-conducted study based on a survey among members of the Polish Producers Alliance (KIPA) [n=59]

⁴⁷ Computer-Assisted Web Interview (CAWI) conducted among members of the Polish Producers Alliance (KIPA) between August and September 2023 (n=59).

⁴⁸ This is reflected in the PISF cost estimate completed by producers applying for funding from the Institute.

Table 2. Distribution of Expenditure by Film or Series Production Stage

The production stage of a film or series	Stage duration	Expenditures incurred in each stage as % of the budget	Average expenses in each stage as a % of the budget
Pre-production	9 – 12 months	10-20%	18%
Principal Photography	1,5 – 2,5 months ⁴⁹	60-80%	68%
Post-production	4,5 – 6 months	10-25%	14% ⁵⁰

Source: Information obtained from interviews with film producers.

The most financially intensive and at the same time the shortest stage of film production is the shooting period. Each day of shooting costs about PLN 200,000. In the course of just a few weeks, a producer can spend several million PLN.

This spending pattern can pose a challenge to a production's cash flow. While every project is unique, one issue remains constant and non-negotiable: the subsidy from the Polish Film Institute. For nearly 85%⁵¹ of producers, the PISF is the main source of funding for their projects. In certain cases, the decision of the Polish Film Institute can determine whether a film is made or not⁵². The Institute's contribution may not exceed 50% of the budget⁵³. The procedure for granting subsidies, as outlined in the "Operational Programmes of the Polish Film Institute for 2022"⁵⁴, follows a structured approach. The first instalment, amounting to 70% of the subsidy, is disbursed after a positive evaluation of the project's financial plan and the signing of the subsidy agreement. The second instalment, equal to 30% of the subsidy, is released once the applicant submits a final report detailing the entire project budget, including evidence of the film's distribution, such as press releases and invoices confirming expenditures covered by the subsidy, and after the Polish Film Institute accepts these documents.

As the grant from the Polish Film Institute amounts to 50% of the film's budget and 70% of this is paid when the contract is signed, only 35% of the budget is available when this payment is received. With this amount, at most a quarter of the shooting can be completed. In this scenario, producers can look for other sources of funding, such as investors or co-producers. However, such sources usually disburse funds in instalments after certain stages of the project have been completed. Cash rebate support is conditional on the payment of expenses and requires that these expenses be incurred within a specified timeframe (only invoices paid by the date specified in the cash rebate conditions are taken into account). Cash rebate support essentially offsets the investment only at the time of tax settlement, unless a particular country (e.g., Ireland, as detailed later in the report) offers early payment options. Such instruments to support film production are not available on the Polish market.

Another complicating factor for film producer's already complex cash flow is the difference between revenues and expenditures with and without VAT. When supported by Polish Film Institute's subsidy, which does not consider VAT as an eligible cost, a "VAT gap" arises, and this can be substantial in the case of high film budgets. Film producers, as entrepreneurs, are entitled to a VAT refund from the Tax Office. However, this refund occurs after the cost is incurred, requiring funds to cover it in the first place.

⁴⁹ This is an estimate prepared for the model. In practice, the principal photography is individually planned to suit the specific production's needs. For documentaries or nature films, the principal photography is often spread out over time.

⁵⁰ This is a theoretical approach; in practice, each film requires a different type of post-production, and its share in the budget can range from 2% to as much as 25%. Post-producers estimate the costs of below-the-line post-production in Poland at approximately PLN 500,000. Each film must meet this minimum, and post-production costs may increase depending on the concept.

⁵¹ Computer-Assisted Web Interview (CAWI) conducted among members of the Polish Producers Alliance (KIPA) between August and September 2023 (n=59).

⁵² Information derived from in-depth interviews with film producers from Poland.

⁵³ In the case of so-called "difficult films", such as debuts, public support can account for up to 90% of the film's financing. However, for historical films and children's films that benefit from incentives, the maximum level of public funding (including grants, incentives, and financial support from the Polish Film Institute) is usually set at 70%. For this example, we have considered a standard scenario.

⁵⁴ PISF, Programy operacyjne Polskiego Instytutu Sztuki Filmowej na rok 2022, <https://pisf.pl/wp-content/uploads/2021/12/PO-PISF-2022.pdf> [access: 23.10.2023]

LAST INSTALMENT SYNDROME

The end of production marks a period of heightened emotions surrounding the entire creative process, exacerbated by cash flow issues. During the post-production stage, there is often a long wait for payment of invoices. Sometimes a film is already in theatres or even off the screens before the post-production subcontractors are paid. This delay often occurs because the timing of the final payment from the Polish Film Institute depends on receiving confirmation that the DCP film⁵⁵ has been submitted

to the National Film Archive (FINA). The final instalment typically covers post-production work, including the creation of the DCP copy. In theory, post-production should not hand over copies until the invoice is settled. In practice, however, in the absence of widespread bridging finance for film producers, post-production professionals have no choice but to wait for the producer to settle with the Polish Film Institute⁵⁶. This situation poses a challenge to financial liquidity and the fulfilment of other obligations.

Case Study: “VAT Gap” in Film Production

The following VAT cash flow data is sourced from one of the Polish producers, focusing solely on filming periods taking place within a specific year. It should be noted that data from the entire production period may exhibit more pronounced fluctuations.

The expanding VAT gap results from an increasing number of individuals on film crews opting to set up sole proprietorships for tax reasons, rather than settling their accounts through specific-task contracts. For instance, consider an ongoing film production with a budget of approximately PLN 31 million. As of now, only PLN 0.8 million has been allocated for specific-task contracts, which represents 2.6% of the total expenditure. In turn, the current VAT burden is PLN 5 million, inclusive of services like hotel accommodations subject to an 8% VAT rate and other services with reduced VAT.

However, if a uniform 23% tax rate were applied to all VAT taxpayers, the VAT gap for this project would exceed PLN 7 million. Therefore, these amounts are not easily covered from internal funds, savings, or informal loans.

Financial liquidity problems faced during production are most often addressed by producers through equity financing (76.6%). Co-producer financing comes second (27.7%), but not everyone has the means to rely on their own capital, which hampers market development. This situation presents an opportunity for banks and other financial institutions to offer bridging loans to filmmakers. These loans are common in major markets but remain the exception in Poland. The lack of specific offers for filmmakers means that the financial market in Poland is not taking advantage of the potential benefits of providing bridge financing to the audiovisual sector. As a result, the film production market is weakened. Examples of solutions from other markets will be presented later in the report.

Table 3. Production Company VAT Gap by Year

Year	Percentage of net budget costs needed to cover VAT costs	Amounts for a sample budget of PLN 10 million
2019	12%	1,2 mln
2021 ⁵⁷	15%	1,5 mln
2022	17%	1,7 mln
2023	19,7%	1,97 mln

Source: Information obtained from conversations with film producers.

⁵⁵ Digital Cinema Package is a set of digital files used to store and transmit audio and video streams and other data for digital cinema purposes.

⁵⁶ The information derives from in-depth interviews with film producers.

⁵⁷ In 2020, the Covid-19 pandemic broke out, leading to a months-long suspension of film industry projects. The year 2022 was excluded from the comparison due to a lack of data for that period.

Audiovisual Production Support System in Selected European Countries

Public financing systems

Poland benefits from substantial public support for cinematography, thanks to the efforts of the Polish Film Institute and regional film funds. In order to provide a perspective on the range of instruments available to support the film industry, we have chosen to compare it with more extensive and developed film markets. The support systems presented also highlight grant allocation mechanisms specifically designed to address producers' cash flow problems.

Ireland

The institution responsible for nurturing film culture in Ireland is Fís Éireann, commonly known as Screen Ireland. It is a governmental agency that falls under the Department of Tourism, Culture, Arts, Gaeltacht, Sport, and Media. Its budget is determined by the lower house of parliament, Dáil Éireann. Screen Ireland supports the development of the Irish film, television, and animation industry. The agency allocates its funds to the development, financial support, production, and distribution of feature films, documentaries, animations, as well as feature and animated series. In 2024, Screen Ireland's total budget will amount to EUR 39.2 million, an increase from EUR 37.7 million in 2023⁵⁸.

The Irish Film Tax Incentive was designed to encourage the production of films, documentaries, television programmes and animation within Ireland, with a particular emphasis on attracting international producers to choose Ireland as their production destination. This rebate is applicable to Irish eligible costs. Producers can benefit from a tax rebate of up to 37%⁵⁹ of eligible expenses, which covers production, post-production, and special effects (VFX), involving local and foreign cast and crew, as well as goods and services. Importantly, producers can access 90% of the tax credit upfront, provided they can demonstrate that 68% of eligible expenses have been deposited into the project's production account, or the production company has secured a completion bond (see text box on the right), production loan or a similar banking facility⁶⁰.

To secure this financing, a film must receive a positive assessment in terms of its cultural value. In Ireland, there is a limit on the amount of tax rebate granted to a particular project, capped at either EUR 70 million or 80% of the total production budget, (depending on which of the two is lower). The project must meet a minimum budget requirement of EUR 250,000, with eligible costs not falling below EUR 125,000⁶¹.

COMPLETION BOND

This is a film industry specific insurance policy that guarantees the completion of the film. Used for films produced by independent producers to ensure that the producer completes and delivers the film to the distributor based on the agreed script, cast and budget. The parties to a completion bond agreement are typically the producer, the funding entity, the production completion guarantor and the distributor.

Completion bonds are complex and expensive instruments and are therefore used for medium and high budget independent films.

⁵⁸ Mona Tabbara, Screen Ireland receives annual budget boost of €1.5m, <https://www.screendaily.com/news/screen-ireland-receives-annual-budget-boost-of-15m/5186822.article#:~:text=Screen%20Ireland's%20total%20budget%20for,%E2%82%AC37.7m%20in%202023> [access:23.10.2023].

⁵⁹ Irish Film Services, what is the Irish Film Tax Incentive Regional Spend Uplift? <https://filminireland.com/film-production-ireland/what-is-the-irish-film-tax-incentive-regional-spend-uplift/> [access: 23.10.2023].

⁶⁰ Irish Film Services, How does the Irish film tax incentive work? <https://filminireland.com/irish-film-tax-incentive/> [access: 23.10.2023].

⁶¹ Ibid.

The name of this Irish tax relief scheme is “Section 481”, and it is widely regarded as having made a significant contribution to the development of the Irish film industry — increasing its ability to support high quality international productions. To qualify for the tax relief, a production company must apply to the Irish Minister for Culture

for a certificate stating that the project is to be treated as “Section 481 eligible”. This application must be submitted to the Minister at least 21 working days before the start of the Irish part of the production. If the Minister issues a Section 481 certificate and all other conditions are met, the production company can claim the Film Tax Credit⁶².

Italy

In Italy, domestic independent producers can benefit from a tax rebate of up to 40% of the eligible production expenses incurred within the country, up to a maximum of EUR 20 million per company or group of companies. In contrast, non-European production companies are entitled to a tax credit worth 25% of the eligible production expenses incurred in Italy, within a limit of EUR 5 million per company or group of companies. When it comes to a production realised by an independent producer for a company that does not qualify as an independent producer or a non-European company, if the independent producer has a share of more than 50% in the rights to use the work, a 40% rate is applied. If the independent producer transfers all rights to the client, the applicable rate is 25%.

Eligible costs in Italy encompass all the production expenditures incurred and paid by the Italian producer, subject to three specific constraints: financial, insurance, warranty and general costs are included up to a maximum of 7.5% of the production costs; above-the-line costs are considered up to a maximum of 40% of the production costs; the producer’s remuneration is not regarded as an eligible cost.

To receive tax relief, an entity must apply to the Italian Ministry of Culture. The Ministry issues an initial decision within 30 days, enabling the Italian producer to proceed with a final application for tax relief. The final application includes a breakdown of the costs incurred by the Italian producer, which must be certified by an independent auditor. The Ministry then confirms the final amount of the tax relief within 60 days from the date of submission of the second application.

An Italian producer can use the tax credit to offset the following tax costs:

- VAT.
- Corporate tax.
- Regional income tax.
- Social security contributions.
- Taxes withheld from labour costs.

Once the Italian producer is notified by the Ministry of Culture that the film has passed the cultural eligibility test, the tax credit can be applied monthly, provided that the expenses are accrued and paid before the end of the month preceding the compensation period.

The Italian tax credit system provides an additional advantage by enabling the sale of the tax credit to banks. This allows an Italian production company to expedite the transfer of the remaining accrued tax credit to a foreign producing company once the production has concluded.

ABOVE-THE-LINE AND BELOW-THE-LINE COSTS

Above-the-line (ATL) costs encompass expenses agreed upon or incurred prior to the actual production of the film. These costs may involve securing the rights to the script, compensation for key creative personnel such as actors, directors, producers, and screenwriters, along with others involved in the film’s financial and creative management. This is typically all that needs to be planned before principal photography begins.

Below the line (BTL) costs include salaries of the technical crew working on the set (sound, lighting, drivers, set and production managers, etc.), editor’s salary and basic⁶³ remuneration of subcontractors during the post-production stage, in addition to general production expenses like catering, accommodation, or studio-related costs.

ATL costs tend to vary, while BTL costs remain relatively fixed.

⁶² Source: Screen Ireland.

⁶³ The post-production stage varies for each film, but it is an essential part of any production with a minimum cost considered to be BTL. Post-production companies estimate that in Poland the minimum post-production budget for feature-length films is PLN 510,000.

France

France is renowned for its thriving film industry, offering an array of production support mechanisms. While the following section highlights some of the key mechanisms, this list is not exhaustive.

In France, a tax rebate of up to 30% on eligible expenses is available for international productions, and this could increase to 40% if the expenses incurred for special effects in France exceed EUR 2 million. The tax credit can be granted to projects that allocate EUR 250,000 or 50% of their total budget to French expenses. For live action films, a minimum of 5 shooting days must take place in France to be eligible. The maximum funding that can be obtained is EUR 30 million per project.

Approval grants the right to a tax refund at the end of each tax year. If the tax refund amount exceeds the corporate income tax liability for that year, the French state will make up the difference. There is an option to sell the tax relief to a financial institution.

The tax rebate covers the following pre-tax expenses:

- Salaries and wages paid to French or EU screenwriters, actors, directors, and the production team, along with associated social security contributions.
- Expenses incurred for specialised companies providing goods and technical services.
- Costs related to transportation, travel, and catering.
- Depreciation expenses.

Projects must incorporate elements related to French or European culture, heritage, and territory⁶⁴.

French regional funds are intended for either 100% French projects or official co-productions, which involve productions conducted in the European Union, a member state of the European Film Co-Production Convention, or one of the 56 countries that have established co-production agreements or treaties with France, including Canada and the UK⁶⁵.

Centre National du Cinéma et de l'Image Animée (CNC) is the National Centre for Cinema and Animation. As a specialised government agency operating under the French Ministry of Culture, it plays a pivotal role in supporting numerous film production organisations in France. It defines the legal and organisational framework for French audiovisual production industry,

nurtures the market ecosystems of cinematography, audiovisual creation, and multimedia, and promotes French cinema and audiovisual productions. Additionally, the CNC co-finances the ongoing activities of the Cinémathèque française (French Cinematheque), which is responsible for the preservation, reconstruction, and dissemination of French film heritage.

The CNC budget is funded through taxes levied on the sales of cinema tickets, publishers, and distributors of television productions, as well as the distribution of audiovisual content online. According to the French Ministry of Culture's budget proposal for 2023, the CNC's annual budget is set at EUR 711 million. This marks a 1.1% increase compared to the 2022 budget (of EUR 703 million). The following sections provide an overview of how the CNC impacts the financing of film production.

Compte de Soutien or automatic subsidies, is a key element of the French film production landscape. Qualified film producers or distributors in France receive these automatic subsidies in percentage proportion to their film's performance in the French box office, DVD and Blu-ray sales, and television transmission rights sales (percentage of sales).

The amount granted for each ticket sold or each euro earned from DVD sales depends on the film's "Frenchness factor", defined by a specific point scale. This means that the more French elements a film has, the higher its "Frenchness factor" and the higher automatic support for its French co-producer. At the same time, the cinema distributor of the French film also receives automatic support in proportion to the number of tickets sold. These funds are directly deposited into the account of the CNC French producer and distributor and must be reinvested in films in France. As a result, this money will become available for the producer's next film in France. This system significantly enhances the value of French rights for foreign films that meet the criteria for being considered French, as each stage of their exploitation generates automatic support that can be used for subsequent film projects⁶⁶.

⁶⁴ Source: Centre National du Cinéma et de l'Image Animée https://www.cnc.fr/web/en/tax-rebate/the-tax-rebate-for-international-productions-trip_190742#:~:text=The%20tax%20rebate%20can%20be,%E2%82%AC30%20million%20per%20project. [access: 23.10.2023].

⁶⁵Source: Centre National du Cinéma et de l'Image Animée <https://www.filmfrance.net/en/coproductions/> [access: 23.10.2023].

⁶⁶ Ibid.

> France

Soficas, or “Sociétés de Financement de l’Industrie Cinématographique et de l’Audiovisuel”, are equity funds financed with tax money. They can selectively invest in both films and television productions, with most of them focusing solely on feature films. The capital for Soficas is sourced from banks and private investors looking to reduce their income tax liabilities. Soficas aim to recover their investments, so they often engage in gap financing, which involves providing producers with the final and most expensive funding. They typically hold a position behind the distributor in terms of recoupment. Each Sofica can invest 20% of its capital in foreign-language co-productions, if the language of the film aligns with the language of the foreign co-producer’s country⁶⁷.

Institut pour le financement du cinéma et des industries culturelles (IFCIC) is a state-owned credit institution that finances the cultural industry. Founded in 1983 on the initiative of the French Ministries of Culture and Economy, one of IFCIC’s objectives is to assist film producers in obtaining bank financing. IFCIC provides a range of financial solutions, including guarantees and loans, to companies operating within the cultural and creative sector. It also extends its financial expertise and banking knowledge to these companies. In addition, IFCIC collaborates with banks by offering guarantees, co-financing opportunities, and specialized expertise in assessing risks unique to cultural and creative businesses and projects⁶⁸.

Aide aux cinémas du monde is a fund managed jointly by CNC and Institut Français and is designed to support international co-productions. It was created through collaboration between the Ministry of Culture and Communication and the Ministry of Foreign and European Affairs. In 2021, the total budget allocated to the

programme was EUR 6.4 million. A total of four sessions are organised each year to support approximately 50 projects. To be eligible for support from this fund, a film must be a co-production between a production company based in France and one located outside of France. Additionally, a non-French director must direct the film. The language in which the film is shot may be the official language or one of the widely spoken languages of the director’s home country or the territory where the film is being produced⁶⁹.

Avance sur recettes avant réalisation, i.e., an advance on revenue paid before implementation. This is the CNC’s mechanism for supporting film production. Its primary objective is to provide support to the debut works of independent creators of feature, animated and documentary productions. This form of financing is allocated based on the recommendations of committees comprised of leading industry experts. The final decision on granting support is made by the CNC chairman. Each year, EUR 29 million is earmarked for these advanced payments, which, on average, benefit around 60 films. They typically receive an average of EUR 500,000 from this funding mechanism. The advance payment, provided before production commences, is considered part of the public support for the film’s production. However, it cannot surpass 50% of the film’s overall budget. Nevertheless, there are exceptions to this rule. For “difficult” films, such as debuts or low-budget productions, support may be extended to a limit of 60% of the production costs. Additionally, for films categorised as “difficult” or low-budget productions that do not qualify for tax relief, support may be provided even up to 70% of their production costs⁷⁰.

⁶⁷ Ibid.

⁶⁸ Source: Institut pour le financement du cinéma et des industries culturelles <http://www.ifcic.eu/> [access: 23.10.2023].

⁶⁹ Centre National du Cinéma et de l’Image Animée https://www.cnc.fr/web/en/funds/aide-aux-cinemas-du-monde_190870 [access: 23.10.2023].

⁷⁰ CNC, Avance sur recettes avant réalisation https://www.cnc.fr/professionnels/aides-et-financements/cinema/production/avance-sur-recettes-avant-realisation_191260 [access: 23.10.2023].

Debt financing systems

Institutional support in the film industry is bolstered by the financial market's offerings, that frequently attract international productions to specific countries due to their availability and diversity. The absence of their financial service in Poland necessitates that productions within the country seek financial assistance from other markets. This can be problematic as these external markets might not fully grasp the intricacies of the local support system. Such challenges faced by the producers translate to lost economic benefits on two fronts: firstly, interest income ends up abroad, and secondly, some of the production might migrate to markets where bridge financing is more readily accessible.

Hungary

The Hungarian tax rebate can be funded through a cash loan with British, American and Hungarian banks all proffering loans to filmmakers to cover the tax rebate. Furthermore, loans specialised for covering VAT costs are also available.

In 2022, the American production company operating in Hungary, Hero Squared, launched a credit line with Citibank, allowing producers to finance both a 30% tax rebate and cover later reimbursed costs of 27% VAT. Once this credit facility is established, independent producers or film studios looking to shoot in Hungary need to provide a 50% cash outlay for their projects. In 2021, the company issued USD 5 million in such loans⁷¹.

Other production companies are also introducing their financial services. For example, Korda Studio, one of the most important production institutions in the Hungarian film industry, focused on international collaboration, has also been offering financial services since 2017. It provides its clients, mainly foreign, with financial, legal and tax advisory services for productions filmed in Hungary.

On the financial side, Korda Finance offers producers access to local banks that provide local VAT pre-financing and a 30% refund of the Hungarian film tax. Through its network of global financial institutions, Korda Finance can arrange pre-sales and bridging loans tailored to the project needs⁷².

It is important to note that financing costs, including interest on loans, are eligible for the Hungarian tax rebate.

Thanks to the combination of the state support system and the availability of commercial bridging loans, Hungary has become an attractive market for foreign producers to shoot and enter co-productions with local companies. Poland, as a larger market, would have even more opportunities to attract foreign creators.

⁷¹ Screen Daily, Michael Rosser, Hungary's Hero Squared launches lending facility with banker Citi <https://www.screendaily.com/news/hungarys-hero-squared-launches-lending-facility-with-banker-citi/5170944.article?referrer=RSS> (access: 23.10.2023).

⁷² The Hollywood Reporter, Nick Holdsworth, Hungary's Korda Studios Launches New Film Financing Service <https://www.hollywoodreporter.com/business/business-news/hungarys-korda-studios-launches-new-film-financing-service-974223/> (access: 23.10.2023).

Germany

In Germany, regional entities support film production in each state. Their operation is complemented by financial institutions that assist producers in maintaining financial liquidity. Sometimes this function is performed by branches of large commercial banks, but typically, such bridge financing comes from banks and funds with experience in film industry. Film and television producers based in Brandenburg and Berlin or German production companies that carry out a significant portion of their projects in the Berlin-Brandenburg media region can avail the services of the Investment Bank of the State of Brandenburg (German: *Investitionsbank des Landes Brandenburg*, ILB) and Berlin Investment Bank (German: *Investitionsbank Berlin*, IBB). Together, these institutions offer specialised services to film producers. They understand the intricacies of public financing and have industry experts who can evaluate projects in terms of their economic viability and market potential. As ILB representatives explain, “When making lending decisions, we focus not only on the company’s creditworthiness but also on the project financing and the risks associated with specific financing sources. A producer’s credit rating does not necessarily have to be favourable to recognise their ability to repay the loan in the case of bridge financing because the loan is repaid from already agreed project financing. Therefore, the real risk primarily lies in the solvency and willingness to pay of the partners involved in the financing. When dealing with German institutions supporting independent film production⁷³ and German television broadcasters, there is no doubt; However, when it comes to other financing agreements with foreign partners or distribution companies, individual risks may arise”.

To secure such financing, a customary insurance policy for film production must be documented. This aligns with the common market practice as all financial institutions will expect the film producer to provide security in the form of insurance against civil liability, bodily injury, and the destruction of image, sound and data media. However, it does not cover financing risks. In the case of international and large-scale films, a completion bond (defined in the text box on page 39) is often included to fulfil the requirements for documentation related to insurance.

Importantly, ILB and IBB understand the industry’s unique characteristics. They are aware that although film financing is considered finalised only after all contracts have been signed, in practice, it usually happens while the film is in production, or even at a later stage. ILB and IBB employ experts with film experience to assess whether the financing status has advanced to a point where final financing appears secure, enabling the disbursement of the bridge loan to take place sooner.

“ This experience must also be implemented within the bank’s decision-making structure; otherwise, decisions are delayed, and the producer may end up in trouble

— notes a bank representative⁷⁴

Representatives from ILB and IBB highlight the advantages of having a small, specialised film production funding institution providing bridge financing. The establishment of such an institution in Poland would not only facilitate production, but also contribute to the market professionalisation.

⁷³ For example, institutions supporting the development of cinematography, such as Medienboard Berlin-Brandenburg or Mitteldeutsche Medienförderung.

⁷⁴ The information derives from the ILB and IBB media team.

France

France, aiming to establish itself as the hub of European cinema, offers a comprehensive range of financial and insurance services for film producers. The country's banks, BNP Paribas being a prominent player among them, take pride in their collaboration with the film industry and approach its development as a strategic endeavour. BNP Paribas is committed to being an active partner in the film industry, extending its involvement beyond supporting film festivals or investing in individual productions.

The bank has formed a dedicated team of over 50 highly proficient bankers, working together to create tailored financial solutions for the film production sector across Europe. In France, the *Pôle Image et Médias* team specialises in managing financing operations for film and audiovisual productions. Remarkably, nearly half of all French films secure either direct or indirect funding from BNP Paribas. Furthermore, through its subsidiaries Cofiloisirs and Cinécapital, BNP Paribas has provided financing for 17 films nominated for the 2023 César Awards and 11 films nominated for the 2023 Cannes Film Festival. Among these films, "Anatomie d'une chute", directed by Justine Triet, received the Palme d'Or award.

In 2018, BNP Paribas established an investment fund dedicated to nurturing emerging film talent. The formation of BNP Paribas Pictures was geared towards financing and co-producing debut films by promising new cinema talent. Beyond the borders of France, BNP Paribas is also providing support to filmmakers in Belgium and Italy by offering a specialised loan service for film production, known as BNL Artigiancassa's "Rete Temporanea d'Impresa" in 2007 and the BNP Paribas Fortis Film Fund in 2008.

While BNP Paribas is a large and versatile bank, the French market has seen the operation of specialised entities exclusively dedicated to the audiovisual sector for a considerable duration. One such highly regarded institution in this category is Cofiloisirs, which has also been serving the needs of Polish film producers. Cofiloisirs specialises in a wide spectrum of productions, including feature films, TV series, animation, and documentaries, and offers its support at any stage of the project. Over the past five decades, Cofiloisirs has been instrumental in providing financial backing to more than 3,000 films and TV series.

Until the previous year, BNP Paribas held a 46% stake in Cofiloisirs. However, since 2022, it has become the sole owner, with 100% of the shares. Additionally, BNP Paribas has gained control over Cinécapital, a specialised consulting firm entirely owned by Cofiloisirs. This strategic move equips BNP Paribas with specialised competencies and a foothold in financing companies operating in the media sector, reflecting the bank's recognition of the growth potential within the film production industry.

The example of Cofiloisirs demonstrates how a specialised lending company can effectively and professionally assist the film production market, whilst also proving to be an appealing investment for a large universal bank. Polish banks could consider capital involvement in specialised entities offering financing, thereby avoiding the need to develop new competencies from scratch and instead, harnessing profits from the untapped segment the market.

80%

of producers have experienced
liquidity problems



The Perception of the Audiovisual Production Sector by Polish Financial Institutions

During the study, in-depth interviews were conducted with bank representatives, and official inquiries were sent to spokespersons of financial institutions. The conclusions in this chapter are therefore formulated based on qualitative methods.

Banks in Poland do not typically provide loans to film productions, nor do they offer loans guaranteed by funding from the Polish Film Institute or regional funds. Banks also rarely provide working capital loans to production companies. Moreover, banks have not granted loans with BGK Creative Europe guarantees to film producers. This type of financing was available to companies involved with software development or activities supporting artistic performances. According to people who worked on this programme, banks did not have an offer for such a narrowly defined industry, so they did not provide financing despite the existence of a guarantee⁷⁵.

“ Companies from the film production industry may seek funding from our bank and, as with all other entities, they are assessed in terms of creditworthiness. At the moment, the loan granting process for professionals in this sector is the same as in other industries.

— response from the Press Office of one of the smaller commercial banks

With the same loan granting procedure as in other industries, the uniqueness of the film production sector poses a challenge for banks. In this industry, cash flows are irregular, and the success of a project depends on variables that automated banking analytics cannot capture. Banks do not consider subsidies as a primary basis for creditworthiness; instead, they focus on factors like a company's operations over the last two years, stability, and the measurement of profitability at the average monthly level. Film production cash flows have a specific pattern where expenses are incurred over several years, and the first profits are seen only after the project is completed. Even if a company has been in operation for many years and is simultaneously producing multiple films, the shooting periods can create instability that previous production profits may not cover.

Subsidies or incentives from the Polish Film Institute and co-financing from regional funds are paid conditionally, based on specific film development stage milestones or correct expense settlements. From the bank's perspective, there is no guarantee for the payout of these funds. Additionally, in the event of incentives, the BGK account to which PISF funds are transferred cannot be assigned. The only solution to this problem is a so-called silent assignment, which is not beneficial for the bank⁷⁶.

A common barrier in applying for a bank loan is the perception that the film production industry as a higher-risk sector. Some institutions have lending policies that may exclude financing for entities within this industry. Even when there is a possibility, discussions with bankers reveal that each case must be considered individually, requiring commitment and self-education from bank employees.

“ The film industry is a high-risk industry for the Bank, which is why each application is subject to a thorough analysis and is individual assessment by the relevant units of the Bank.

— response from the Press Office of a medium-sized commercial bank

Therefore, most banks prefer dealing with industries that have more standardised business models, making them more reliable for banks and fitting into automated risk analysis.

Additionally, banks do not conduct analyses on the film industry, and bankers admit to having limited knowledge of its economic impact or the benefits it brings to the labour market⁷⁷. In conversations with bankers who have worked with the corporate sector for many years, it is not uncommon to hear that they have never encountered the film production sector in their careers. Essentially, there is a lack of awareness regarding aspects such as insurance against specific events, such as the non-appearance of a lead actor on set.

⁷⁵ Opinion obtained during an in-depth interview.

⁷⁶ A silent assignment, unlike a standard assignment, cannot be written off as a reserve requirement by the bank.

⁷⁷ Conclusion based on in-depth interviews with bankers and responses received from the institution's spokespersons.

Case Study: Incentive Loan

In 2023, a major Polish bank approved a loan on the Polish Film Institute's incentive. The bank representative in charge acknowledged that it was an individual decision driven by his personal familiarity and fondness for the film production industry. The decision was made based on his knowledge of the client and his film background, which provided confidence that the project would indeed come to fruition. Additionally, effective collaboration at the documentation level and the bank's willingness to learn played a pivotal role. The client had to articulate the specificity of various financial and industry-related aspects for the bank to understand how to assess the associated risks,

Insurance was of no importance to the bank, essentially being of negligible relevance. In addition, the bank had to assume that repayments would not take place every month but would align with the disbursements from the Polish Film Institute. To account for this, a substantial buffer for payment delays was included, a practice has now become standard. These are truly unusual concessions from the bank.

“ We approached a single case individually, but there will be no dedicated procedures for this industry. Someone within the bank would need to be familiar with, and there are no film industry specialists working in banks.

— says a representative of a major bank in Poland

The loan for co-financing through incentives was granted at the final production stage, which naturally reduced the risk. It required an exceptional level of commitment from both the bank and the borrower in terms of time and attention. Therefore, it is crucial to exercise caution when considering loans on incentives as a new trend in banking.

In Poland, there is a well-established standard for the economic evaluation of projects, such as the production of a feature film. These evaluations are carried out the regional funds, which are responsible for assessing various aspects, including cultural and regional value, as well as promotional, attendance and economic value. Regional funds take part in the recoupment scheme, making them specialised professional entities that can assess a project's likelihood of successfully closing its budget, completing the film, and realising its market potential.

Each regional fund has its own know-how and established standards. Using the Gdansk Film Fund, one of the newest regional funds, as an example, we describe the film evaluation procedure.

First, the documents are checked for compliance with the requirements. To qualify for a subsidy, the producer must demonstrate that they have already secured 50% of the film's budget and provide evidence that their bank accounts are unencumbered. The assessment then proceeds by evaluating elements such as the script, the track record of the creators involved, the cast, and therefore the artistic value and audience potential. The evaluation also includes the assessment of the potential return on investment, script's alignment with the budget, and the likelihood of meeting the remaining part of the budget. Experienced filmmakers are engaged as external experts to participate in the artistic, audience, and economic evaluation. This approach helps identify any inconsistencies between the script and the budget, — which can include seemingly minor details that may be overlooked by non-experts but could create budget-related issues. The key to a successful evaluation is the careful selection of experts.

Marketplace For Credits and Loans in the Audiovisual Production Sector

An estimate of the potential market for loans and credits for film producers was carried out to finance the second tranche of subsidies from the Polish Film Institute and incentives. It is important to note, that this estimation only considers the potential interest in these types of services, and the final approval of a loan depends on the assessment of creditworthiness and the bank's decision.

To estimate the market potential, the average annual amount of PISF subsidies for feature, documentary, and animated films was calculated⁷⁸. Considering that the first tranche of 70% is paid after signing the contract, and the second tranche of 30% is paid after submitting the expense report, it is assumed that 30% of the total budget will potentially be financed through a bridge loan.

To estimate the cash rebate loan market, the average annual amount granted to creators through this mechanism was calculated based on data since its inception in 2019.

It is worth noting that this estimate, indicating an average annual demand of PLN 107.2 million, represents the minimum amount indicating potential interest in bridge financing for subsidies and incentives. It does not account for producers' other financing needs, so the potential demand for credit in the audiovisual production sector may be even higher.

Table 4. Total Subsidies Granted by the Polish Film Institute in Individual Years for Fiction, Documentary, and Animated Films, and the Average Subsidy Amount Over the Last 5 Years⁷⁹

Year	2018	2019	2020	2021	2022	Sum	Average
The amount of funding each year	57,411,390	63,273,940	64,061,869	67,032,468	105,509,901	357,289,568	71,457,913.60

Table 5. Total Amounts of Incentives (cash rebate) Granted by the Polish Film Institute in Individual Years, and the Average Incentive Amount Over the Last 4 Years⁸⁰

Year	2019	2020	2021	2022	Sum	Average
The amount of funding each year	51,215,766	85,271,108.17	93,700,000	112,744,273.75	342,931,147.92	85,732,786.98

Source: Self-conducted study based on PISF data

Table 6. Estimation of the Market Potential for Loans Under PISF Subsidies and Incentives

Average PISF subsidies per year for feature, documentary, and animated films over the last 5 years	30% of the average amount of PISF subsidies for feature, documentary, and animated films (second tranche, paid after the film is made)	Average PISF incentives per year over the last 4 years since their implementation	Estimated market size: 30% of the sum of PISF subsidies for feature and animated films (column 2) plus the average PISF incentives per year (column 3)
PLN 71,457,913.60	PLN 21,437,374.10	PLN 85,732,786.98	PLN 107,170,161.08

Source: Self-conducted study based on data from the Polish Film Institute [PISF] and the Office of Competition and Consumer Protection [UOKiK]

⁷⁸ Own calculations based on PISF data.

⁷⁹ Data: PISF.

⁸⁰ Data: PISF (2019, 2020, and 2022) and UOKiK (2021).

INSURANCE IN AUDIOVISUAL PRODUCTION

There are also specialised insurance policies available in the audiovisual production sector. It is advisable for filmmakers to take out an all-risk policy. It primarily insures the medium, ensuring that any damage to recorded material, like accidental deletion, is financially protected. Furthermore, the policy extends to cover various elements related to the film set, including:

- **Failure of key persons to appear on set:**

This entails the inclusion of specific individuals such by their name and surname in the policy. Typically, these include the lead actors, the director, and the camera operator.

- **Additional costs arising from shooting dates**

cancellations: This aspect addresses expenses that may result from the cancellation of a shooting day due to unforeseen circumstances such as damage or the unavailability of shooting locations. Such damages might include events like flooding or storms.

Other insurance aspects Various additional components are typically included in this comprehensive insurance policy, covering aspects like film equipment, decorations, props, vehicles used on set for filming purposes, coverage for entrusted

property, producer's civil liability, and civil liability towards the location. Insurance plays a crucial role in ensuring the successful completion of a film project. It is often a standard requirement in many countries when applying for financing, with producers expected to present policies that cover specific events based on the criteria of the funding institution. One such policy, known as Errors & Omissions [E&O] insurance, safeguards against claims from individuals whose rights have not been properly secured. This policy covers various rights, including image rights, music rights, and script rights. In advance, a clearance process is conducted, involving a legal audit to secure these rights. If any rights are found to be unsecured, foreign distributors typically insist that the producer obtains this insurance. As a result, anyone considering the foreign distribution of their work must acquire E&O insurance, making it a crucial factor for the export of Polish film productions.

“ We previously conducted three policies a year, now we conduct three a month.

— reports a representative of a company that has been insuring film production for many years⁸¹.

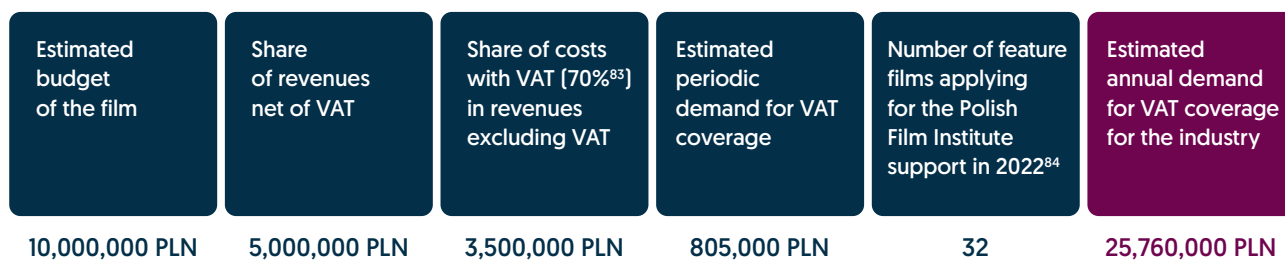
⁸¹ The information in the text box is based on an in-depth interview with an insurer specialising in services for the Polish audiovisual production market.

Demands of the Audiovisual Production Industry

In addition to bridge loans for subsidies and incentives, the audiovisual production industry has other requirements. A key necessity is “VAT gap” bridging finance, as outlined above in the report. This type of service, referred to as VAT financing in film production, primarily benefits producers, especially in Hungary.

Industry estimates indicate that for large-scale productions, discrepancies in VAT taxation between revenues and expenses may periodically require covering up to PLN 2 million. To estimate the annual demand for financing to bridge the “VAT gap” among producers who benefit from the Polish Film Institute subsidies and incentives, a film budget of PLN 10 million was considered in this budget, 50% of revenues are from public financing⁸², excluding VAT. It was assumed that 70% of production costs are VAT-inclusive. This assumption considers that a significant number of subcontractors are businesses that invoice with VAT.

Bridge financing for films benefiting from PISF incentives and subsidies represents only part of the potential market for financial services tailored to the audiovisual production industry. Furthermore, there are projects for streaming services and television that require financing. Each project is negotiated on a case-by-case basis, and the contracts are subject to commercial confidentiality, therefore, providing reliable estimates for this market may be challenging.



⁸² Estimation based on Kamil Przełęcki's expert knowledge.

⁸³ Estimation based on Kamil Przełęcki's expert knowledge, assuming a large production staffed by experienced specialists, most of whom are often companies or sole proprietorships.

⁸⁴ Adopted for estimation purposes. The number of films co-financed by the Polish Film Institute varies each year but oscillates around the 2022 figure.

Summary

Countries that provide support to the film industry enjoy several benefits, beyond the prestige associated with the “red carpet” such as awards, festivals, and recognition of creators or locations. The film industry support translates into profits from organising international productions, and high-quality and engaging jobs, stimulation of local culture through the presence of filmmakers, and opportunities related to co-creating films. Cash flow management requires support in every industry, and it is especially crucial in the film production sector due to financially sensitive shooting periods that demand substantial funds over a relatively short time frame.

In important European markets for the film industry, filmmakers can rely on support not only from banks, but, above all, from specialised entities that understand the unique nature of the industry. Such institutions often receive capital backing from banks, but because of the specific nature of analysing film industry projects, they function independently.

Poland, as a large country in Europe, enjoying a well-established system of incentives and a strong film production sector, should not rely on foreign entities or unofficial loans from acquaintances, family, and friends to address the issue of bridge financing. This harms the image of the industry and encourages foreign producers to choose other countries in the region, like Hungary, for their film projects.

There is an untapped market for bridge loans for the film industry in Poland, which could benefit banks and holds enormous potential for a specialised institution. Banks do not provide financing to producers, primarily due to their lack of experience in dealing with the industry. This creates a sort of vicious circle. In Poland, there is room for an entity, such as a fund, investment bank, or lender, which could provide comprehensive financial support dedicated to film producers. Such an entity should have the expertise to economically evaluate audiovisual production to effectively offer dedicated bridge financing, along with investor competences. Banks and other listed companies could invest in such an institution, requiring them to fulfil ESG objectives. The presence of such an entity would enhance Poland's reputation as a country with a stable and professional film production sector, while banks and other listed companies could benefit from contributing capital to support the audiovisual culture.

Research Methodology

The aim of the report is to examine the condition of the Polish audiovisual production market and to investigate the primary challenges related to financing the audiovisual production sector in Poland. The research was conducted between July and October 2023 and involved a range of methods and data sources, which are outlined below.

Qualitative and quantitative analysis

The qualitative analysis relied on desk research to explore key trends and figures illustrating Poland's position within the global and European audiovisual production market. This included aspects such as industry revenues, employment statistics, film production volume, and cinema attendance figures, amongst others. Studies and databases were sourced from the European Audiovisual Observatory, including reports such as *Marche du Film — Focus 2023 and the Yearbook 2022/2023. Key trends*. Eurostat data was utilised, including *Structural Business Statistics* and reports like *Culture and national heritage in 2022*, *Cultural and creative industries in 2021*, and *Cinematography in 2022*. Data from the Polish Film Institute, including information on projects co-financed by the Institute and research conducted on the film market were also referenced. Requests for data, such as production volumes, production budgets, and generated revenues, were sent to members of the Polish Producers Alliance (KIPA). The report referred to the PwC *Global Entertainment, Media & Telecommunications Outlook 2023-2027* study for market development forecasts, including insights into the cinema market's outlook over the next five years. Additionally, an Input-Output model, based on input-output tables provided by Statistics Poland, was used to illustrate the impact of the audiovisual industry on the Polish economy.

Computer-Assisted Web Interview (CAWI)

Between August and September 2023, CAWI, an online survey, was carried out among entities associated in the Polish Producers Alliance (KIPA). The primary objectives of the survey were to gain insights into the experiences of film and series producers in Poland, focusing on various aspects related to audiovisual content production. These included identifying key market trends, understanding the challenges and obstacles faced by the industry, and exploring the financing-related challenges in production. The survey was structured with a total 22 questions and collected 59 responses.

In-Depth Interviews with film producers and financial institutions

As part of this research, a total of 17 in-depth interviews were carried with 12 interviews conducted with professionals from the audiovisual production sector and 5 in-depth interviews conducted with representatives of financial institutions. Additionally, inquiries were also sent to bank spokespersons. The purpose of these interviews was to deepen the conclusions drawn based on the desk research analysis and the CAWI study, and to learn the perspectives of two parties — audiovisual producers and the financial sector.

Benchmarking (comparative) analysis

The benchmarking analysis had the specific goal of comparing the public support and debt financing systems in Poland to those in five other European countries: Ireland, Italy, and France were chosen for public financing comparisons, while Hungary, Germany, and France were selected for debt financing comparisons. The benchmarking analysis served as a valuable source of information to help shape the report's recommendations.

Authors

Content of the report

Public Sector & Economics, PwC Poland:

Dionizy Smoleń, PhD, Partner

Paweł Oleszczuk, PhD, Vice Director

Julia Otwinowska, Senior Associate

Maria Szurowska, Expert

Project coordination

Maciej Dydo, Managing Director, KIPA — the Polish Producers Alliance

Expert supervision

Irena Strzałkowska, President, KIPA — the Polish Producers Alliance

Piotr Belka, Board Member, KIPA — the Polish Producers Alliance

Kamil Przełęcki

Alicja Grawon-Jaksik

Co-funded by the Ministry of Culture and National Heritage from "Rozwój Sektorów Kreatywnych" programme

Ministerstwo Kultury
i Dziedzictwa Narodowego



Partners



Patronage of the Polish Banks Association Management Board

