Introduction to the Value Chain

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Cultural Expressions

Document No. 3

Capacity-Building Programme in Africa

Introduction to the Value Chain

The value chain captures all of the different phases of the creation, production, and dissemination of culture. With the value chain approach, culture can be viewed as resulting from associated sets of processes. The value chain can be used by policy makers to determine the needs of the cultural and creative industries. It can be used to inform policies and measures, support project design and to address entrepreneurial needs. The value chain includes five stages:

1. Creation: the originating and authoring of ideas and content (e.g. sculptors, writers, design companies) and the making of one-off production (e.g. crafts, fine arts).

2. Production: the reproducible cultural forms (e.g. TV programmes), as well as the specialist tools, infrastructure and processes used in their realisation (e.g. the production of musical instruments, the printing of newspapers).

3. Dissemination: the bringing of generally mass-produced cultural products to consumers and exhibitors (e.g. the wholesale, retail and rental of recorded music and computer games, film distribution). With digital distribution, some goods and services go directly from the creator to the consumer.

4. Exhibition/Reception/Transmission: refers to the place of consumption and to the provision of live and/or unmediated cultural experiences to audiences by granting or selling access to consume/participate in time-based cultural activities (e.g. festival organisation and production, opera houses, theatres, museums). Transmission relates to the transfer of knowledge and skills that may not involve any commercial transaction and which often occurs in informal settings. It includes the transmitting of intangible cultural heritage from generation to generation.

5. Consumption/Participation: the activities of audiences and participants in consuming cultural products and taking part in cultural activities and experiences (e.g. book reading, dancing, participating in carnivals, listening to radio, visiting galleries).

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Value Chain Analysis

Value chain analysis "describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (...), delivery to final consumers, and final disposal after use. This includes activities such as design, production, marketing, distribution and support services up to the final consumer (and often beyond, when recycling processes are taken into account).

The activities constituting a value chain can be contained within a single firm or divided among different firms, as well as within a single geographical location or spread over wider areas. The term 'value chain' refers to the fact that value is added to preliminary products through combination with other resources (for example tools, manpower, knowledge and skills, other raw materials or preliminary products). As the product passes through several stages of the value chain, the value of the product increases." 1

Value chain analysis is a multi-purpose tool that lets policy makers, project designer or cultural entrepreneurs gain an understanding of the causes for market under performance by identifying the reasons for market failure. It is also a tool for assessing where blockages and gaps may appear in the creation, production, distribution, consumption and enjoyment of culture. Value chains can also offer insights into the weaknesses of a specific sector, details on challenges and the opportunities of a growing cultural field.

The cultural and creative industries in developing countries experience particular problems. Some recurring problems are the lack of institutional support, producers lacking sufficient skills and technology to respond to demand, the origins of the target groups was also a major challenge in terms of connecting ethnic minorities to markets and to mainstream markets.

Among the multiple uses of a value chain analysis a few uses that may not be obvious are:

- Value chain analysis can help to ensure sustainability and scale.

- Value chain analysis helps improving the understanding of key actors and their role in the chain

- Value chain analysis helps to identify market opportunities and how to overcome multiple gaps and chain constraints

- Value chain analysis case studies can also demonstrate models that can be scaled, replicated or propagate in other cultural and creative industry sectors.

1. Value Chain Development for Decent Work, page 3 (ILO)

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Key Value Chain Questions

Who are the key players in each of the value chain 'moments': creation, production, distribution, consumption?

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Where are the work places for each of the value chain 'moments'?

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How supportive is the regulatory framework for each of the value chain 'moments' and the entire value chain

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Does the education and training environment support and align to the respective creative industries ?

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To what extent can the different value chain 'moments' (artists, producers, distributors, exhibitors etc.) access mainstream business support ?

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Is the business and trading environment conducive to the creative industries (craft, music, film etc.)?

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Music Value Chain

Source: Avril Joffe, CAJ

In this example research revealed that the core entrepreneurial problem was not only a lack of understanding of the value chain, but the unacknowledged entrepreneurial opportunities at each 'moment' of the value chain, for instance the musician who composes and seeks opportunities for recording; the record producer who sources new sounds and musicians to record, the agent who finds gigs for his/her musician to perform; the venue owner who subsidises live music through the bar; the festival organiser who brings new emerging musicians onto live platforms.

Key Insights from the Fashion Design Value Chain

This is an example of the fashion design value chain from the Guateng province in South Africa.

The fashion designers draw/sketch their ideas on paper and/or computer. The design concept will then run through various stages of development until the garment is finally completed. The designer will then decide on the styling of the design concept (colours, fabrics, fit). The designers will either produce the design concepts within their studio or outsource the production to local or foreign manufacturers. The local or imported fabrics are purchased through an agent or directly from retail shops. One of the frequently stated problems is that designers have to buy very large quantities from the textile companies.

The fashion designers work together with CMT staff and seamstresses to produce the garments, although some fashion designers opt to outsource the production locally or across national borders. The completed garments are then sold through agents, retail outlets, speciality stores or through the designers' studio. Marketing and public relations (either web based or not) play an important role in the above process.

There are other related organisations and activities that play a role across the value-chain, like the Textile Export Council, Clothing Federation, Cotton Boards, government departments (e.g. DTI), and education and training. The Gauteng province has about 4 private schools and 3 universities of technologies (Tshwane, Vaal and Johannesburg) that have specialist fashion design programmes.

Key Insights from the Film and TV Value Chain

The Film and TV value chain comprises two broad networks, the producer led project networks (supply) and the distributor led rights exploitation network (demand) as illustrated in the adjacent diagram. In many developing countries, the focus has been on the provision of funding and development support to the supply functions and in particular the production side. This is not surprising given developing countrys' employment focus and its willingness and ability to service blockbuster films (big budget films) locating to foreign locations. However, the real wealth from the film sector comes not from productions, but from content and the ability to sell rights to that content. This is usually absent in film value chains in the developing countries.

"The real wealth from the film sector comes not from productions, but from content and the ability to sell rights to that content."

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Create Your Own Value Chain

Instructions

Step 1
Name the creative originator of the idea, product or service. This is the first step of the chain.

Step 2
List the players in the production of the product or service. This may include providers, manufacturers and facility suppliers for example.

Step 3
List the people, players and institutions who play a role in the marketing, public relations, retail and distribution of your product or service.

Step 4
Brainstorm the consumers, potential consumers or people who will enjoy your good or service. This can include but is not limited to audiences, journalists or the public at large.

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Support for the promotion of cultural expressions along the value chain: European Approaches

Creation

At this stage of the value chain, the objective of cultural policies and measures is to provide support for artists to create new works. They are to be developed in an environment where universal fundamental rights and freedoms are guaranteed, such as the freedom of expression and communication and the right to artistic expression free of censorship.

Below is an overview of different types of cultural policy measures which directly support artists in Europe. It is important to keep in mind that the national government is not always the main actor providing support for creative artists and their works. The degree of involvement will depend upon whether responsibility for culture is centralized or decentralized. In the latter case, regional or local authorities play an important role. For example, in Germany, the 16 Länder have historically been responsible for culture and therefore have their own funding systems and support programmes. The contrary is found in the Nordic countries, where the national government plays a key role in creativity funding and has developed a well defined system of support for creative artists. In many Southern European countries, foundations provide the majority of direct support for artists and their projects such as the Portuguese Gulbenkian Foundation.

The system of public funding for creativity in Central, Eastern and South East Europe and in the Baltic States collapsed after the fall of communism. New systems have since emerged including the establishment of sector specific arts councils and funds, e.g. in Estonia and Croatia as part of the government's strategy to decentralize and democratize public decision-making and administration. In recent years, some countries have stalled the implementation of their strategies to decentralize responsibility for cultural policy due to the lack of resources available on the local or regional levels to finance cultural institutions. A recentralization of responsibilities has occurred in countries such as Hungary. The absence of extensive public support systems for culture in countries of East and Central Europe has led creative artists to seek funds primarily from alternative private sources including foundations, private individuals (patrons) or private companies.

While there are a diversity of public systems and traditions to support creative artists throughout Europe, they have one thing in common: funding for individual artists at the 'creation stage' rarely exceeds 1% of the total public expenditure for culture (except for in the Nordic countries where the share is estimated at between 3-6%)3.

Direct funding for creativity in many countries is allocated through arms-length bodies such as arts councils, national endowments or funds rather than through the ministries responsible for culture. Such funds may be derived from the culture budgets of governments, through compensation schemes, e.g. public lending rights, the state lottery, excise taxes on alcohol and tobacco sales, etc. An interesting example is found in Poland where funds to support artistic creation – mainly of young artists – are derived from the income generated on the sale of art works with expired copyrights - the so-called 'dead-hand' fund.

A relatively new institutional actor committed to supporting young artists is the ministry responsible for youth. For instance, in Italy, the Ministry for Youth Policies and Sports Activities has identified the promotion of young people's artistic creativity as one of the goals in its National Plan for Youth.

Some of the main types of measures providing direct support for creation are:

- *Individual artists' grants*: these grants can be given for a longer or shorter period of time enabling artists to concentrate on the creation of a new idea or work. One- to two-year grants or bursaries are available to writers, visual artists and composers, e.g. in Finland, Hungary, Ireland, Lithuania, the Netherlands, Sweden. Five- or even ten-year grants are part of the public funding tradition in Sweden (taxable) and Finland (tax free).

- *Artists or authors' salaries* are monthly honoraria or payments given to selected artists to ensure that they have a minimum income – the level of which is determined by the state – for a defined period of time. These are similar to long-term project or work grants which would allow artists to concentrate fully on their work. In Austria, a special fund has been created to provide income supplements to writers and authors who have special social needs, e.g. low pensions, incapacity to work, care of dependants, etc. The Federal Chancellery/ Arts Department provide income-related supplements to freelance theatre workers ('IG Netz') and musicians ('social fund for the creators of music').

- *Project grants*: these are given to both individual artists and arts organizations to undertake a specific project based on an application process. For example, the Arts Council England 'Grants for the arts' programme provides support for the production of new works or the promotion of new talents. The Dutch Foundation for Visual Arts, Design and Architecture also provides funds to individual artists for the creation of new works. In some cases, project grants are given within the framework of specific political priorities such as community development and outreach or to support the work of specific groups such as disabled persons.

- *Targeted funding and grants* to support the work of artists with a minority background. For example, the Arts Council England grant programme 'Decibel – raising the voice of cultural diverse arts in Britain' aimed to increase the number of 'ethnically diverse artists' among the recipients of Arts Council funding. More recently, the Flemish authority introduced measures to ensure that 10% of the cultural budget is allocated to the works of 'non-indigenous arts and artists'.

- *Awards and prizes* given as a result of a specific competition which is organized by the Ministry of Culture for different sectors. For instance, in Croatia public competitions are held to stimulate contemporary playwriting, to support modern compositions, filmmaking and publishing. The winners of these competitions are given a monetary prize and in the case of playwriting, a Croatian theatre will stage the premiere of the prize-winning play.

- *Public commissions* for new works of art. For example, in France, the '1% for art' programme is based on the principle that 1% of the total budget on the construction or renovation of a public building must be reserved for a new work of contemporary art. This measure is applied in many European countries.

- *Artist-in-residency programmes*. Artists are given free studio space and a monthly allowance or small grant to concentrate on a specific work, e.g. the Nordic Artists' Center in Dale, Norway. Other types of residency programmes offer subsidized rents and provide assistance to help artists find funding to cover the costs of their stay. Some simply provide unique spaces for artists to stay for pre-determined periods of time. In the latter case, artists are responsible for covering all of their own costs.

- *Subsidises for rehearsal or studio space*. Governments provide subsidies to cultural institutions or centres which offer artists spaces to work at a reduced price or for free. For example, the St James Cavalier Centre for Creativity in Malta allows artists, especially young artists or those embarking on innovative projects, to use its rehearsal spaces for free.

- *Support for formal and informal arts education and training*. Nurturing creativity at the earliest stages of development is a policy priority for most governments.

Production

The objective of cultural policies and measures at this stage of the value chain is to provide support for the means of production and access to institutions of production.

Many countries, regions and cities in Europe are undertaking cultural or creative industry mapping exercises as a first step in the process of developing *sector specific strategies to support local cultural production*. Strategies have been produced in Austria, Estonia, Finland, France, the Netherlands, Poland, Spain, Switzerland, and most famously, in the UK. They have also been prepared for local regions/cities such as North Rhine-Westphalia, Flanders, Ile de France, Plovdiv and Split.

There are a range of economic measures which governments have adopted to provide support for artists as entrepreneurs operating in the cultural industries. They are designed to help them set up their own companies, find capital and negotiate loans from the bank. Some measures found across Europe are:

- *Reduced interest rates on loans*: In Hungary, the Ministry of Education and Culture offers subsidies to cover 50% of the interest on loans taken out by book production companies. This scheme is jointly managed with a private bank which is selected through a tendering process;

- *Loans and lines of credit*: The Austrian Labour Service runs a start-up programme which provides lines of credit to new entrepreneurs, including those from the culture sector;

- *Capital investments*: In the UK, the Creative Advantage Fund West Midlands provides investments in the form of seed capital;
- *State acts as a credit guarantor*: In France, the Institut pour le financement du cinéma et des industries culturelles (IFCIC) was created in the early 90s to act as a credit guarantor and investment promoter for various companies working in the cultural sector. It works mainly in cooperation with private banks;

- In Flanders, the government supports CultuurInvest, a *semi-public body* which provides short-term and bridge financing for specific projects as well as growth capital and loans to cultural entrepreneurs. It also cooperates with the Vlaams Innovatiefonds-Flemish Innovation Fund, which invests risk capital into innovative, start-up enterprises. The capital basis of CultuurInvest is derived from public funds (50%) and private investors from the banking and insurance sectors.

Other types of measure providing support for local production are:

- *Direct subsidies to local production companies*: Several countries throughout Europe provide direct subsidies to cultural industry producers such as book publishers;

- *Production quotas* imposed on public broadcasters, for instance, to allocate a certain share of their budget to programmes created by local independent producers: Some countries have actually increased their level of state support for domestic cultural productions such as films or other audiovisual

productions and have set targets for domestic production as part of a strategy to diversify the supply of cultural content, such as in Norway;

- *Public purchases grant schemes* as a means to support local production: These schemes guarantee the purchase of works of art or literature to be publicly displayed or distributed. For example, in France, the art purchasing grant scheme, funded equally by the State and regional councils, is distributed via the FRACs (Regional Fund for Contemporary Art). Over 14,000 pieces of work have been purchased from ca. 3,000 artists by the FRACs since the creation of the programme in 1982. In Austria, the scheme is managed by Artothek, which has to date acquired about 24,000 works of art;

- *Management support, coaching and/or mentoring programmes* for new cultural entrepreneurs in the UK and in Flanders;

- *Cultural management modules* are emerging at many arts, theatre and music academies across Europe.

Distribution

The objective of cultural policies and measures at this stage of the value chain is to provide support for the distribution of diverse cultural expressions in the marketplace. There are various channels which can be used to distribute these works, for example: *public cultural institutions* (e.g. theatres, concert halls, museums and exhibition halls); *privately owned cultural enterprises* (e.g. book and music stores, private galleries); *professional festivals* (local or transnational); *open public spaces* (streets, parks, city centres); *channels of mass communication* (e.g. radio, television, cinema, Internet). Public support for these channels varies, yet is much larger and more extensive than the means available to support creation, for instance. A review of the budgets of the ministries responsible for culture across Europe show that an overwhelming majority of funds are invested in creating, maintaining and preserving large-scale *public cultural and media institutions*.

While public subsidises to support *independent distribution companies* are not usual, there are some exceptions, for example in Spain, Sweden, or Germany. In the latter case, public subsidies have been provided to film distribution companies over the past 20 years. Support for these enterprises is considered extremely important in the context of diversity as it enables the distribution of cultural goods which may not otherwise make it past the gate- keepers located in the buying departments of major distribution companies. On the European level, some smaller countries find it difficult to enter neighbouring markets. According to 2003 figures published by the European Audiovisual Observatory, only about 30% of all European films were distributed beyond their national borders. This figure drops dramatically when examining the figures for films produced by new member states of the EU; only 18 films produced by these countries were distributed throughout Europe, accounting for 0.01% of the European admissions in 2003. New films from these countries, for example, will either not find a distributor or will enter the market in a small number of copies and be distributed only to selected art house cinemas in big cities and beyond the reach of the majority of European audiences. Initiatives such as the EU supported *Europa Cinemas* or state supported *regional film centres* (e.g. in Finland) are working to diversify the supply controlled by a small niche of distributors.

Festivals are extremely important venues for artists to distribute and exhibit their work among colleagues as well as to the larger public which may not otherwise have access via the mainstream marketplace (including mainstream public cultural or media institutions). Direct public support for festivals is usually given in two ways:

- *sponsorship* to the organizers of the festivals or
- *travel grants* to enable a wide base of participation for artists from different locations.

Content regulations in the form of quotas, for instance, are proactive measures which are implemented to restore competition in the marketplace by increasing the opportunities for domestic productions to be distributed within their own country. There are many different kinds of quotas which regulate the share of domestic, foreign, cultural

and linguistic content of film, television and radio programmes, and which are distributed through the national broadcasting systems.

Cultural content quotas also regulate the type of programmes broadcast, stipulating that a certain share of time is to be reserved for theatrical performances or music concerts. While these quotas are mainly aimed at public broadcasters, some countries have included such public service obligations in the licensing requirements of commercial broadcasters. For example, in the UK, all commercial broadcasters have to respect strict quota regulations on regional and independent productions. The same approach has been adopted in France and Slovenia where commercial broadcasters must respect public service quotas. Promoting the diversity of cultural content is one of the main priorities set by the *Network of Broadcasting Regulations and Cultural Diversity* through its Barcelona Declaration 2004. Among the members of the network are regulatory authorities, broadcasting and independent film councils, universities and research institutes from across Europe.

Direct public support is also given for the *distribution of artistic works in public places*. This can be in the form of grants (given through urban renewal funds) to display large works of art permanently or present temporary installations. Funding comes either from the state or from the budget of local municipal offices which are earmarked for these purposes. Direct support is also given to the organization of live events, such as the 'Fête de la musique' street festival in France which gives artists and musicians access to the public which they would not otherwise have outside of mainstream radio stations, bars or clubs (to which access may be limited).

Access and Enjoyment

Cultural policies and measures to promote access to diverse cultural expressions have traditionally been constructed around the goal to increase the public's participation in cultural life as a means to enhance their overall quality of life. Mercer and Bennett further qualify participation as4:

- Freedom from oppressive restraint (liberty to exercise cultural choice including non-participation);
- Real possibility (actual capacity for choice, action, participation);
- Knowledge of those possibilities (intellectual access);
- Confidence to act upon them (opportunities for the accumulation of cultural capital through education, the family, networks, etc.);
- Physical access through distribution of infrastructure and capacities for such access;
- Facilitative support from others (networks of sociality and governmental or community facilitation).

Activities and programmes resulting from current policies aimed at promoting participation in cultural life are carried out through: publicly subsidised *cultural institutions* (to provide better access to their services); *educational institutions* (introducing children and young people to a range of cultural services and activities); *local community art centres* (as a platform for amateur arts); or in *open public spaces* (where individuals and groups can meet to share/exchange cultural expressions). Some of the cultural policy aims are to:

- provide all citizens with an awareness of cultural activities and the skills to participate in them through education programmes;
- provide location-disadvantaged citizens with access to cultural activities and expressions;
- help overcome financial barriers and make it easier for citizens to have access to exhibitions or public galleries (through reduced price tickets or free entrance);
- overcome physical, linguistic and other cultural barriers to participation in cultural life.

Increasing public awareness about the diversity of cultural expressions has become a policy strategy or tool in some countries. For example, in Sweden, the government introduced a promotional campaign in 2006 as the Year of Cultural Diversity to encourage the main public cultural institutions to 'open their doors more fully to new Swedes'. This campaign is said to have raised public awareness about the cultural expressions of individuals and groups with migrant cultural backgrounds. A series of concrete recommendations were produced at the end of the Year which supported the introduction of a targeted cultural policy approach accompanied by specific diversity measures. New action plans are being created in other countries aimed at promoting the

participation of minorities in cultural life, e.g. the Finnish Ministry of Culture's *Accessibility in Arts and Culture Action Plan 2006-2010*.

As stated at the beginning of this paper, Article 7 (b) of the Convention reminds national policy-makers that their strategies and measures are not only to be targeted at promoting local cultural expressions but also at *opening access to, and encouraging dialogue with cultural expressions from around the world*. In this context, international cultural cooperation policies – beyond cultural diplomacy – are relevant. Different government approaches have so far focused on:

- *support programmes* aimed at enhancing the competitiveness of local productions abroad by providing support for their export. In some countries special working groups have been established, such as the UK Creative Exports Group (CEG) which aims to help increase the creative industries' economic potential at home and enhance their export potential;
- promotion of local productions abroad through *cultural institutes* or sector specific information centres such as music information centres;
- promoting local artists and their works at *international or regional contemporary art or book fairs and film festivals*;
- *translation of locally produced works* into foreign languages as part of a larger scheme to promote culture abroad;
- the *exchange/mobility of students, artists and other professionals* working in the cultural field through a variety of schemes including residency programmes;
- the realization of *common trans-national/ international projects* such as co-productions;
- support for *information exchange and networking activities*.

The provision of space for cultural expressions from around the world will also depend upon how governments address the imbalance in the global flows of cultural goods and services. This refers to strategies which target the import of cultural goods and services from specific world regions rather than solely focusing on the export of domestic goods and services. The EU Cotonou Partnership Agreement with African, Caribbean and Pacific (ACP) countries to support their cultural development as well as to improve access to European markets for ACP cultural goods and services is one example. This Agreement was recently followed up with a proposed EU-ACP Cultural Fund.

However, there are some urgent challenges facing international cooperation and exchange in the cultural field such as border regulations which erect high barriers of entry, increasing visa fees, administrative burdens for touring companies or double taxation policies for independent artists.