

# New Options Ease Local Film Funding

By [Irina Filatova](#)

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A full-length movie with television's Smeshariki characters will be co-produced by Bekmambetov's company.

The domestic film industry will become more transparent and attractive for private investors after an independent organization is created this year to ensure that projects are completed and a new investment fund is set up to provide financing for a local project, market players said Friday.

The Denmark-based European Film Bond company and Sistema Mass-Media, AFK Sistema's mass media unit, agreed to establish a joint company to oversee the film shooting process and guarantee investors that their funds are being spent properly and the film is completed in a timely manner.

The system, known as completion bond, which is widely used in Europe and the United States, will be operational locally by the end of this year, said a spokeswoman for Sistema Mass-Media.

The joint company will oversee projects and reinsure risks, sharing liability with other insurance companies, she said by telephone, adding that investors will have to pay 2 percent to 3 percent of the film's budget for the services.

Sistema Mass-Media and European Film Bond signed a memorandum on establishing the company at the St. Petersburg International Economic Forum earlier this month. The project got support from the Federal Cinema Fund.

The sides' stakes in the joint venture are under discussion, Sistema Mass-Media said on its web site.

The new initiative is expected to eliminate the lack of transparency that is one of the biggest problems hampering investments in the domestic film industry, said chief executive of film maker Bazelevs Group, Nikita Trynkin.

"A producer always knows much more about his project than an investor and can exaggerate the project's advantages when presenting it to investors," he said at the sidelines of the Film Finance Forum in Moscow.

In an attempt to increase transparency and attract investors, Trynkin said, several mutual funds will be set up later this year to allow private investors to finance films produced in Russia.

The first fund, which is being managed by Troika Dialog investment company, was created to finance a full-length 3D animated movie based on "Smeshariki," co-produced by film director Timur Bekmambetov's Bazelevs Group.

"Smeshariki" is an animation television series for children. It tells about the life of ball-shaped characters, including a rabbit, a hedgehog and a lamb, that live in a fairytale world.

The fund will target qualified private investors, which can get returns in 12 to 18 months, said Troika Dialog's chief business officer Jacques Der Megreditchian.

According to the Federal Service for Financial Markets, the criteria for a qualified investor include for individuals holding equities of at least 3 million rubles (\$107,000) and closing at least 10 deals worth a total of 300,000 rubles every quarter over the last four quarters, and for private companies having revenues of at least 1 billion rubles and assets of 2 billion rubles in a single year.

Investors participating in the fund will get "the complex returns," which include the film's box office earnings, as well as the revenues from selling DVDs, television broadcast rights, toys and computer games, Der Megreditchian said.

Both Trynkin and Der Megreditchian declined to comment on the expected size of returns provided by the fund.

The fund is expected to finance "a substantial part" of the film's \$8 million budget, Trynkin said.

Films are usually financed by either one or two film studios like Universal or 20th Century

Fox, or through private equity funds, with returns to be received in five to 10 years, said Der Megreditchian, adding that most private investors can't be involved in such projects.

Investors that will finance the movie through the new fund will "in fact become co-producers," Der Megreditchian said.

"If this approach is properly developed in the future, it will determine the pace of the film industry growth," he said by telephone.

According to Trynkin, the mutual fund is a new investment tool to provide funding for local film projects.

Trynkin said he hoped that such a scheme would help attract local and foreign investors and get financing for more projects in the future.

The Russian film industry, whose elite is currently gathering at the Moscow International Film Festival, has shown disappointing results in the last two years. According to industry magazine Kinobiznes Segodnya, only six of the 69 movies produced locally last year appeared to be profitable.

Ensuring the global distribution of locally produced movies would increase the industry's attractiveness and boost interest among investors, including those from abroad, said Brian Marler, senior vice president at Houlihan Lokey, an international investment bank providing advisory services, including valuing intellectual property projects in the media and entertainment industry.

"You can do a worldwide release, maybe team up with a U.S. distributor ... and there will be more interest from the investors to put money into that film, because they'll have more revenue sources," he told The Moscow Times on the sidelines of the Film Finance Forum.

The film industry is traditionally a risky business, said Trynkin of Bazelevs. Among the biggest risks that the film industry faces are fickle audiences and high competition, especially with Hollywood movies, he said.

"If the date of a film's release coincides with a movie like 'Avatar,' it's hard to compete in that situation," he said.

According to Kinobiznes Segodnya, James Cameron's "Avatar" earned a record \$117 million in Russia and the CIS last year.

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