Economic activities of the Estonian Film Foundation

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Executive Summary

The objective of the Estonian Film Foundation (hereinafter referred to as the EFF) is to create conditions for the development of cinematographic culture in Estonia. In the years 2002 and 2003, 34.3 million kroons was allocated to the EFF from the state budget, and in the year 2004 36.7 million kroons was allocated to the EFF from the state budget. The EFF holds 100% of shares in AS Tallinnfilm.

Main findings

An overview of financing the cinematographic art

At present, no act of law regulates the field of cinematographic art. The action plan of the Ministry of Culture and the Articles of Association of the Foundation provide for the principles on the basis of which cinematographic art is developed. For cinematographic art funds are allocated from the state budget as appropriations to the Foundation. Some funds are allocated through the Cultural Endowment of Estonia and some through the International Cinematographic Cooperation Foundation of the Ministry of Culture. While in 2003 the field of cinematographic art was supported with 50 million kroons, only 34 million kroons was received through the EFF. The audit of grants disbursed by the Foundation revealed that the target of financing from different sources was the same in many cases. On several occasions funds had been received for the same project or event from all three sources referred to above. Thereby the Ministry lacks information on how many projects are supported from different sources and what the total amount of support allocated from the state budget is per project. In addition, persons deciding upon the disbursement of grants in the said three authorities coincide partially. Although such a scheme has been justified with the pluralism of decision-making, the State Audit Office is of the opinion that support to cinematographic art through different channels should be better coordinated and, if possible, state financing sources should be minimised altogether.

Approval of the budget of the Foundation

The Supervisory Board approves the budgets of the Foundation and the Minister of Culture makes agreements on the use of budget assignments. Starting from the year 2004, the budget constitutes an annex to such agreements. Formerly the agreements did not specify the monetary volumes (the amounts to be used for production and other costs) but merely the film-minutes to be produced. The budget of the Foundation does not indicate the total balance from previous periods, but just a part thereof. In the opinion of the State Audit Office, such budgeting does not provide an exact overview of the actual use of state budget assignments. Moreover, the Supervisory Board has not established the amount that may be left over at the end of a year as unused balance.

Arrangement of disbursement of grants

In most cases applications had been reviewed and agreements signed within the prescribed terms, and interim reports had been submitted and grants paid at the prescribed due dates.

Yet the State Audit Office sees many questionable points in the standing order for disbursement of grants. For example, the standing order establishes that both self-financing and cofinancing must be certified by a letter of indemnity, but often it is impossible to submit one. Furthermore, the concept of self-financing has not been established unambiguously. The approval of final reports has proved to be problematic, as well. For example, the final report on the film "Nimed marmortahvlil" ("Names in Marble") states that the cost of the film was 18.1 million kroons, but the budget prescribed the cost of 21.2 million kroons. Although the standing order provides for the opportunity to reclaim the grant if the budget is changed, this was not done in the case of the said film. Even though retrenchment must be welcomed, the State Audit Office finds that the Foundation should establish a procedure for behaviour in such a situation, because in the given case the money of the filmmaker, not the state, was retrenched. While the standing order prescribes that the final instalment of a grant must be disbursed upon approval of the final report, on one occasion 50% of the final amount was disbursed under the decision of the Management Board of the Foundation before the approval of the final report on the basis of the petition of the company making the film in question. The State Audit Office reproves placing grantees in an unequal situation as a result of the individual decisions of the Management Board.

Involvement of expert appraisal in the evaluation of applications

According to the standing order of disbursement of grants, applications are subject to an expert appraisal with regard to the artistic, economic and legal soundness of a film project, if necessary. Projects whose cost starts from 300,000 kroons are always subject to an expert appraisal. To carry out an expert appraisal, the key expert is required to involve consultants and the written expert opinions of these consultants will be added to the decision to be passed. The standing order does not establish any requirements on persons carrying out expert appraisals or on the expert appraisals as such. The position of the State Audit Office is that that such requirements should be in place and an expert appraisal should clearly state whether a project in question must be supported or not. In addition, the number of experts to be involved should be established, as well. Also remuneration payable to experts has entailed problems. Although a total of 248,500 kroons was paid for expert appraisals in the year 2003, the Supervisory Board and the Management Board of the Foundation have not approved a standing order for remuneration payable for expert appraisals. Nor have the rates of expert appraisal fees been established by any regulation. Therefore, agreements establishing fixed monthly payments as well as contracts for services have been signed with experts. In some cases, the remuneration was paid on the basis of invoices.

Sale of the assets of AS Tallinnfilm

In years 1998–2000 three registered immovables and some buildings of AS Tallinnfilm were sold for a total of 22.28 million kroons. Considering that the costs of arrangement of sale and legal assistance amounted to 1.5 million kroons, the sum received from the sale of the registered immovables was 20.8 million kroons. The State Audit Office found that the process of sale of the registered immovables was not sufficiently documented: in several cases it was impossible to ascertain how the auction had been announced, who had been the organiser of the auction, on which bases the decision on the entry into the sales contract had been taken or why the process of sale had been suspended. Another characteristic feature of the transactions was that potential buyers had frequently waived the purchase, as a result of which the selling price declined continuously. Notably, the selling price of the immovable at Harju 7/9 in the centre of Tallinn was reduced the most.

Furthermore, on one occasion the Foundation decided to sell the registered immovable to a buyer who had not tendered the best price. Minutes of meetings do not provide the reason for such a decision.

Main proposals

To the Minister of Culture

- To provide for the principles of support to cinematographic art and the principal terms and conditions of disbursement of grants in the draft Cinema Act.
- To instruct the members of the Supervisory Board of the EFF to review transactions relating to the sale of the assets of AS Tallinnfilm and, if necessary, to demand the imposition of joint and several liability on the members of the Supervisory Board and the member of the Management Board of the company owned by the Foundation for passing decisions detrimental to the company.

To the Supervisory Board of the Foundation

- To amend the standing order for disbursement of grants such that the standing order would provide for the criteria for selection of experts and the requirements on expert appraisals.
- To establish the rates of remuneration payable for different types of expert appraisals and to ensure supervision over adherence to these rates.
- To consider the need for keeping the Foundation's available balance of previous periods, to establish the permitted amount of the balance and to disclose the aggregate balance of previous periods in the budget.

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The Minister of Education and Research in the capacity of the Minister of Culture stated that the draft Cinema Act would be completed in 2004, in which the objectives, bases, criteria and sources of financing the cinematographic art would be provided for. However, the Minister does not deem it necessary to limit the sources of allocation of funds for cinematographic art, because the current system ensures broad-based decision-making. The Minister also finds that the Foundation needs to keep the balance of financial resources, but such a balance should be limited to up to 10 percent of the overall budget of the EFF. In

addition, the Minister will instruct the Supervisory Board of the EFF to evaluate the rationality of transactions involving the sale of assets of AS Tallinnfilm.

The EFF stated in its response that the Foundation intends to adopt a new wording of the standing order for disbursement of grants during the year 2004 and in the preparation of the new wording the Foundation would consider the possibility of specifying the general criteria for selection of experts. In addition, the Supervisory Board of the EFF deems it necessary to establish the maximum rates of remuneration payable to experts.

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