

Summative Evaluation of the Canada New Media Fund

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**Evaluation Services
Corporate Review Branch**

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List of Acronyms

CCO	Canadian Culture Online
CCOS	Canadian Culture Online Strategy
CDCCI	Canadian Digital Cultural Content Initiative
CICCS	Canadian Internet Cultural Content Strategy
CNMF	Canada New Media Fund
IRAP	Industrial Research Assistance Program
NRC	National Research Council
PCH	Department of Canadian Heritage/Patrimoine canadien
SR&ED	Scientific Research & Experimental Development Tax Credit Program
TB	Treasury Board

Executive Summary

Background

The purpose of this study was to conduct a summative evaluation of the Canada New Media Fund (CNMF), a program established and funded by the Department of Canadian Heritage (PCH) and delivered by Telefilm Canada (“Telefilm”). The CNMF program was established in 2001, and the evaluation study focused on the 2001-02 to 2004-05 timeframe.

The CNMF is a component of the Department’s Canadian Culture Online Strategy (CCOS), which is designed to enhance Canadian presence on the Internet and to provide increased accessibility to Canadian cultural content for all Canadians in both official languages. The CNMF is intended to support the goals of the CCOS by furthering the development, production and marketing/distribution of original interactive Canadian cultural new media works.

The CNMF has three components: 1) Product Assistance; 2) Online Distribution Assistance; and 3) Sectoral Assistance. The Product Assistance component provides conditionally-repayable contributions for projects pertaining to market research and prototyping, product development and marketing of original cultural new media products. The Online Distribution Component provides financial support to online distribution projects aimed at increasing the availability and visibility of Canadian new media products. Finally, the Sectoral Assistance component provides support for awareness activities that benefit the entire industry, such as training programs offered by schools and centres of expertise and support to Canadian festivals that target the new media industry.

Between 2001-02 and 2004-05, funding for the CNMF has been approximately \$9 million per year. In February 2005, the Minister announced a \$5 million increase starting in FY 2005-06. Some 80 per cent of the CNMF budget is devoted to projects funded under the Product Assistance component, and thus the evaluation study focused on this project category.

The CNMF evaluation was conducted to report on the success, cost-effectiveness and ongoing rationale of this program. While the Canadian Culture Online Strategy received government approval in 2005, the CNMF was not included as part of the approval request, pending the completion of the evaluation study.

The evaluation study was conducted by Kelly Sears Consulting Group on behalf of Evaluation Services at PCH, between August 2005 and July 2006. The evaluation

originally was intended to be completed by December 2005. However, two surveys commissioned by PCH (a public opinion survey and a survey of new media companies) and conducted by Corporate Research Associates Inc. were delayed due to the timing of the February 2006 federal election, which halted the conduct of government public opinion research.

The evaluation methodology involved: 1) an extensive review of the Canadian and international literature on the new media industry; 2) a review of Telefilm files and databases containing information on funded recipients; 3) interviews with some 30 key informants from government and the new media sector; and, 4) analysis of the results of the two surveys noted above.

Conclusions

The main findings of the Evaluation of the Canada New Media Fund on the three issues of rationale, success and design and delivery are as follows.

1. Rationale

The essence of the rationale for government intervention in the new media sector was to ensure that there would be a Canadian presence on the Internet, thereby providing access to Canadian culture in this emerging global space. A secondary aspect of the rationale was to support the development of a Canadian new media industry (in order to produce the required cultural content).

The evidence is mixed on whether the government needs to continue to support the production of cultural new media content, and further research by the Department of Canadian Heritage on this subject is warranted. Public opinion surveys indicate that Canadians are unsure regarding whether there is sufficient Canadian content on the Internet, but are supportive of the efforts of governments to fund the development of such content. Canadians are generally satisfied with the cultural information they find on the Internet. On the other hand, key informants expressed a high level of concern regarding the perceived growing U.S. domination of the Internet, and believe that Canadian new media companies need to be supported to address this lack of Canadian content.

On balance, the evidence indicates that the federal government should continue to support the new media sector, not only to ensure Canada reaps the economic rewards from an increasingly important sector, but to ensure Canadian-based companies, products and technologies will be an important part of the Internet and other formats, such as cell phones and MP3 players.

2. Success

The Canada New Media Fund was launched in 2001. For the new media sector, the past several years have been a time of unprecedented turmoil, innovation, and change. Major stock market indices peaked in March 2000, before commencing a decline of 40 per cent over the balance of the year – a decline which continued through 2001, and into the latter months of 2002. The resulting contraction of the sector led to a rash of bankruptcies, massive layoffs throughout the industry and losses for investors – events captured by the phrase “dot-com bust.”

Since the bursting of the bubble, companies in Canada’s new media sector have consistently stated that raising capital is a major hurdle to success – a view that once again was confirmed by the present evaluation study. By providing financial assistance to companies in this sector, the Canada New Media Fund has been one constant in a rapidly shifting environment. Companies that have benefited from CNMF support over the past several years emphasized that the funding received has been important to the success of their companies and to the sector as a whole. Most of the projects financed by the CNMF would not have been undertaken in the absence of the program.

The evaluation study examined a variety of measures pertaining to the CNMF’s achievement of its intermediate and ultimate outcomes. Telefilm does not yet report on the percentage of market research/prototyping projects that reach the production stage or the percentage of production/marketing projects that enter distribution, but is currently developing a proposal for doing so.

Regarding audiences, Telefilm has developed a methodology that aggregates web site traffic across a sample of CNMF-supported web sites. Preliminary results indicate that convergent web sites supporting youth-oriented television shows tend to draw substantial audiences.

In terms of commercial success of CNMF-supported products, it appears that relatively few products generate any revenue from distribution, based on the data in the exploitation reports provided by recipients to Telefilm. This is consistent with the general view that it is difficult to develop a business model for many culturally-oriented new media products. This may change as the sector continues to evolve; for example, mobile applications may have more commercial potential, as consumers appear to be more willing to pay for content received on their cell phones and other newer platforms.

3. Cost-Effectiveness/Alternatives

A number of other funding sources are available to new media companies. The main funding source is the Bell Broadcast and New Media Fund (“Bell Fund”). It has a more narrow focus than does the CNMF, as it supports convergent websites tied to

television shows. The Bell Fund is also a grant, rather than a conditionally-repayable contribution. As with the CNMF, the Bell Fund receives many more applications than it can fund (about 25-30% of applications are funded).

There is some overlap between the Bell Fund and the CNMF, as both programs support convergent website projects tied to television shows. All key informants interviewed were content with the status quo, due to the scarcity of funding in the sector, and stated that the two programs should continue to harmonize their eligibility criteria and application process. In our view, the overlap between the two programs should be removed. One option might be for the Canadian Television Fund to provide funding support to broadcasters for the development of convergent web sites, which would enable the CNMF to exclude this type of project. PCH may wish to investigate further this and other potential options.

The evidence indicates that Telefilm is the logical organization to continue to deliver the CNMF. Telefilm administers other programs in the traditional media sectors. Feedback on Telefilm's service delivery was generally positive. Numerous improvement suggestions were provided, the main one being that Telefilm needs to better connect with the industry.

4. Design and Delivery

The CNMF is in need of substantial transformation in order to address several design issues – a transformation that should not be unexpected given the growth, collapse, and rebirth of the sector over the past five years.

Several issues pertaining to the Product Assistance component of the CNMF were identified. The evidence suggests that should the Department decide to continue with the CNMF, certain parameters should be examined, including i) increasing the cap on producer fees; ii) increasing the percentage of a project's budget funded by the program, particularly for culturally-oriented projects; iii) increasing the size of project budgets and permitting larger companies to participate; and iv) assessing intellectual property ownership rules. The repayment terms and process followed by Telefilm also need to be reviewed.

Recommendations

1. The Department should re-design the Canada New Media Fund

The Department in co-operation with Telefilm should consult with industry in order to re-design the Canada New Media Fund. The process should consider designing a new program that would take a portfolio approach.

One stream of funding could be devoted to high quality, cultural new media products that have the potential to reach sizeable audiences. This funding would be in the form of a conditionally-repayable contribution – given most of these projects would have limited commercial potential. The percentage of a project’s costs covered by the program could also increase from 50 per cent to, say, 75 per cent.

A second stream of funding could target projects that have more commercial potential. An assessment is required to determine whether a conditionally-repayable contribution continues to be the appropriate mechanism, and, if so, whether the repayment terms need to be modified. For example, the repayment terms could be based on future revenues and set at a level to not deter companies from applying to the program. The current funding caps could be substantially increased and no restrictions might be placed on the size of applicant companies. Intellectual property ownership rules could be re-examined in order to ensure they do not deter companies from participating. Recipients could be limited to the number of projects funded over time in order to prevent an “entitlement mentality” from occurring.

The Department should also establish clear objectives and measurement indicators for the re-designed program, including establishing performance targets.

Management response: Accepted

While the Canadian Culture Online (CCO) strategy received Government approval in 2005, the CNMF was not included as part of that request, pending the completion of this summative evaluation study. The Department is in the process of re-designing the Terms and Conditions of the Canada New Media Fund in consultation with Telefilm Canada with the aid of information gathered through the summative evaluation process. The Department will consult with key industry leaders on the proposed changes as part of the program renewal process.

Implementation schedule: by March 2007

2. The Department should launch an extensive consultation process to develop an industrial strategy for Canada’s new media sector

Some of the possible elements of an industrial strategy that emerged from the evaluation study and which could be examined further are the following:

- **Creating co-production treaties or similar mechanisms to encourage co-ventures** – Under co-production treaties, the benefits awarded to national projects are accorded to third party nationals meeting certain conditions. Given the international aspect of the Internet, new media projects would present interesting, ground-breaking opportunities for cross-border collaboration. And, as other countries are formulating policies in this sector, this is a good time to explore such arrangements.

- **Tax credits** – Tax credits are available for other segments of the audio-visual industry and several key informants argued that they should be extended to new media producers. These might take the form of a labour credit or a credit for capital investments in technology required to develop cutting-edge applications. Some reservations were also noted, including the high cost of tax credits. A preliminary step in this direction would be to assess the cost and effectiveness of provincial sector-specific credit programs, such as the Ontario Interactive Digital Media Tax Credit.
- **Creating an Internet portal to showcase the work being done by Canadian companies as a result of CNMF-type government support** – A type of “Telefilm channel” on the web showcasing funded programming/projects and new works. While interviewees were aware of the “culture.ca” web site, they felt that a more “commercially” oriented portal was needed, with increased marketing support, and tighter links to other highly trafficked web sites.
- **A focused approach to sectoral assistance** – Including support to targeted companies to not only attend important international markets, such as E³, but to take full advantage of such venues by providing introductions to key market players.¹ Immersion programs would be developed, which would bring together producers and buyers in an intensive multi-day forum; such programs have been successfully conducted by Telefilm in the film sector.
- **Support for research and development** – By having the National Research Council’s Industrial Research Assistance Program (IRAP) devote a portion of its budget to the new media sector.

Management response: Accepted

The Canada New Media Fund is part of the CCO strategy and as such, approximately half of its funds are scheduled to sunset March 31, 2010. Prior to that date, a broad review of the strategy will be undertaken. A more extensive consultation with the new media industry will be important in this broader analysis. The consultation would be planned for the period following an approval of a revised Canada New Media Fund. The consultation will include issues related to the Canada New Media Fund but will also discuss broader issues than the Fund which were raised through the summative evaluation process and separately by the industry.

Implementation schedule: fiscal year 2007-08

¹ The E³ trade show announced in early August, 2006, that it would be scaling back the show. As details emerge in coming months, the appropriateness of E³ as a venue for Canadian participation will have to be reassessed.

3. A re-designed CNMF should be administered by Telefilm Canada, and several delivery enhancements should be implemented

A re-designed CNMF would be delivered by Telefilm. Several changes should be made to how the program is delivered. For example, applications would be peer reviewed. An increased emphasis would be placed on post-project reporting by companies, so that the results of funded projects could be tracked. Telefilm's reporting to PCH would focus on results (see also recommendation #5). Telefilm would develop an ongoing industry consultation process to ensure that whatever program emerges continues to be responsive to the needs of the industry. Successful projects would be profiled on the program's web site.

Management response: Accepted

The Department has a longstanding partnership with Telefilm Canada. In the Office of the Auditor General's November 2005 report, they found that Telefilm Canada was the logical delivery partner for many of the cultural sector's programs, including the Canada New Media Fund. The summative evaluation also reflects that stakeholders felt that Telefilm Canada is an effective administering body for the funds, given its recognized expertise.

A good deal of work has been done in the past year to improve Telefilm Canada's ability to track and report on results. The Department will continue to work with Telefilm Canada on this issue, and other delivery enhancements identified in the summative evaluation, throughout the renewal period. Resultant modifications will be reflected in future contribution agreements with Telefilm Canada.

Implementation schedule: by March 2007

4. As soon as practical, the Department should require Telefilm to prepare and submit a report that examines compliance of CNMF recipients with contract repayment provisions

Telefilm should provide a report to PCH covering all CNMF product assistance contracts between 2001-02 and 2005-06 in order to assess compliance with contract terms pertaining to repayment and project reporting. In the future, such information should be contained in Telefilm's regular reports, and covered as part of the regular audit process.

Management response: Accepted

One element of the framework for the renewal of the Canada New Media Fund is the clarification of Telefilm Canada's strategy for recoupments. As part of this process, the Department will require Telefilm Canada to provide a report on the compliance of recipients with repayment provisions and project reporting requirements. The Department will also require Telefilm Canada to provide regular reports on product

assistance contracts through the next contribution agreement under the new Terms and Conditions of the Fund.

Implementation schedule: by March 2007

5. The performance measurement framework for the re-designed CNMF should focus on a set of strategic indicators

A performance measurement framework should be prepared to monitor and report on the success of the re-designed Canada New Media Fund. The annual report prepared by Telefilm should provide information on a set of strategic performance indicators, focused on assessing the overall success of the Fund. Several possible indicators are presented in this report. The annual performance report should also be published and discussed with industry, as part of a “state of the industry/state of the program” report. The additional costs of performance measurement should be reflected in Telefilm’s contribution agreement with the Department.

Management response: Accepted

In developing a new integrated Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the Canada New Media Fund, the Department will focus on ensuring that new strategic indicators will be strongly supported by the measurement of outcomes that contribute to the strategic objectives of the Cultural Affairs Sector as well as those of the Department.

Implementation schedule: by March 2007

6. The Department should commission a study of Canadians’ usage of Canadian and American content on the Internet

This study would examine actual Internet usage patterns of Canadians, particularly Canadian youth. To what extent are Canadians accessing Canadian versus American content, including portals? What are the trends and implications? The study would design an appropriate data collection methodology, e.g., similar to the metered approach used for television viewing habits. Key metrics would be tracked over time.

Management response: Accepted in principle

The Department is interested in Canadians’ use of Canadian and international cultural content. While commercial products exist that allow for the tracking of Canadians’ use of the Internet in general, cultural content represents such a small proportion of overall Internet content that the kinds of approaches proposed would not be appropriate.

The Department is studying Canadians' use of cultural content on the Internet through a number of statistical surveys. In particular the Canadian Internet Project, a bi-annual study which is part of the World Internet Project, allows the Canadian results to be compared to those of 10 other countries.

Implementation schedule: Ongoing

1 Background and Study Overview

1.1 Introduction and Study Objectives

The purpose of this study was to conduct a summative evaluation of the Canada New Media Fund (CNMF), a program established and funded by the Department of Canadian Heritage (PCH) and delivered by Telefilm Canada (“Telefilm”). The CNMF program was established in 2001, and the evaluation study focused on the 2001-02 to 2004-05 timeframe.

The CNMF is a component of the Department’s Canadian Culture Online Strategy (CCOS), which is designed to enhance Canadian presence on the Internet and to provide increased accessibility to Canadian cultural content for all Canadians in both official languages. The CNMF is intended to support the goals of the CCOS by furthering the development, production and marketing/distribution of original interactive Canadian cultural new media works by new media producers.

The new media sector has been characterized since inception by a number of attributes, including: a) rapid change; b) a heavy reliance on technological skills; c) difficulty in finding funding; d) elusive business models; e) changing delivery channels; and, f) difficulties in retaining control over intellectual-property based assets – which are the basis for many new media companies. While the new media sector has always been characterized by these attributes, if anything they have become more pervasive in recent years. Furthermore, the cross-border spill of media has now become a multi-national phenomenon, forcing Canadian new media content creators to compete with large multi-national corporations and smaller niche players from around the world. As a result, Canadian content creators in this sector face a uniquely challenging environment, which makes the creation of cultural new media products more difficult than in other sectors.²

The CNMF has three components: 1) Product Assistance; 2) Online Distribution Assistance; and 3) Sectoral Assistance. The Product Assistance component provides conditionally-repayable contributions for projects pertaining to market research and prototyping, product development and marketing of original cultural new media products. The Online Distribution Component provides financial support to online distribution projects aimed at increasing the availability and visibility of Canadian new media products. Finally, the Sectoral Assistance component provides support for awareness activities that

² The first phase of the evaluation study involved preparation of an in-depth analysis of the new media sector, including its historical origins, defining characteristics, and recent evolution.

benefit the entire industry, such as training programs offered by schools and centres of expertise and support to Canadian festivals that target the new media industry.

Between 2001-02 and 2004-05, funding for the CNMF has been approximately \$9 million per year. In February 2005, the Minister announced a \$5 million increase for FY 2005-06. Some 80 per cent of the CNMF budget is devoted to projects funded under the Product Assistance component, and thus the evaluation study focused on this project category.

The evaluation study was conducted by Kelly Sears Consulting Group on behalf of Evaluation Services at PCH, between August 2005 and July 2006. The evaluation originally was intended to be completed by December 2005. However, two surveys commissioned by PCH (a public opinion survey and a survey of new media companies) were delayed due to the timing of the February 2006 federal election, which halted the conduct of government public opinion research.

1.2 Evaluation Objectives and Issues

The CNMF evaluation was conducted to report on the success, cost-effectiveness and ongoing rationale of this program. While the Canadian Culture Online Strategy received government approval in 2005, the CNMF was not considered in this approval process, pending the completion of the evaluation study.

The specific evaluation issues as specified in the study terms of reference are as follows:

Rationale and Relevance

- 1) Is there a continued need for the federal government to further the development, production and marketing/distribution of cultural new media products?
- 2) How does the CNMF link to current Government of Canada priorities?

Success

- 3) To what extent has the CNMF been successful in achieving its immediate and intermediate outcomes?
- 4) To what extent has the CNMF contributed to the achievement of its long-term outcome?
- 5) What have been the unintended impacts and effects resulting from the CNMF?
- 6) What are the major internal and external factors influencing the success of the program?

Cost-Effectiveness/Alternatives

- 7) To what extent does the CNMF duplicate or overlap with similar programs delivered through other organizations in the private, public and not-for-profit sectors?
- 8) Is Telefilm Canada the most effective vehicle for delivering the CNMF, or could the same results be achieved if any or all of the program were transferred to another private, public or not-for-profit organization.

Design and Delivery

- 9) To what extent do design and delivery aspects of the program contribute to the achievement of desired results?
- 10) Has the CNMF implemented an ongoing performance measurement strategy and how well does the strategy provide information on program performance?

1.3 Evaluation Methodology

A summary of the evaluation methodology follows.

1.3.1 Documents and literature review

The project began with a review of relevant documentation pertaining to the history and operations of the CNMF. PCH provided relevant documents, including government approvals, etc. The CNMF management files maintained by PCH were also reviewed. Telefilm provided additional information, including copies of annual reports submitted to PCH and data on financial expenditures.

An emphasis of the planning phase was a review of the literature on trends in the new media industry. The results of this review enabled a detailed profile of the new media industry to be prepared.³

1.3.2 Interviews with key informants

A total of 30 in-depth interviews with key individuals knowledgeable about the CNMF and the new media industry were undertaken in order to obtain feedback on a variety of evaluation issues, including the rationale and continued relevance of the program and program design and delivery. The list of organizations contacted is provided in Appendix A.

Structured interview guides were prepared in co-operation with the Project Authority and a guide was e-mailed to each individual in advance of the interview (the four

³ Kelly Sears Consulting Group, "Evaluation of the Canada New Media Fund: Industry and Program Overview Report," submitted to PCH on January 26, 2006.

guides are included in Appendix B). PCH first mailed and e-mailed a letter of introduction summarizing the purpose of the evaluation and to solicit co-operation.

Interview guides were made available to interviewees in both English and French, and interviewees were given a choice of being interviewed in their preferred language.

1.3.3 Review of Telefilm CNMF project files

We conducted an on-site review of a sample of some 30 CNMF project files maintained by Telefilm in its Montreal and Toronto offices. The objectives of the file review were to understand and assess each step of the project delivery lifecycle, including project application, review and reporting.

1.3.4 Review and analysis of data from a survey of new media organizations

PCH commissioned Corporate Research Group to conduct a telephone survey of organizations involved in the production, marketing and distribution of cultural new media products/content. A description of the three survey populations along with the number of respondents are as follows:

- CNMF recipients – A census of all CNMF recipients over the period 2001-02 to 2005-06 was targeted: a total of 161 companies. A total of 57 interviews were completed.
- Applicants – These were companies that applied for CNMF funding but were either not approved, or were approved but did not sign a contract for some reason. Some 334 companies were contacted and 80 interviews were completed.
- Non-applicants – Samples for the non-applicants were developed by the survey company from various online sources and with the assistance of several industry associations. Some 788 organizations were contacted and 93 interviews were completed.

1.3.5 Review and analysis of Canadian public opinion survey data

PCH also commissioned Corporate Research to undertake a national public opinion survey that contained five questions related to the use of on-line cultural products and content by Canadians, awareness of the new media sector, and opinions regarding the use of public monies to support cultural new media development. Decima Research conducted the public opinion survey.

This survey on interactive Canadian cultural content was part of a larger omnibus survey conducted between March 30 and April 9, 2006. A total of 2,013 Canadian

adults (18 years of age or older) were surveyed. The error interval for this survey was estimated by Decima to be +/- 2.2%.

The data from this survey were provided by PCH to Kelly Sears for analysis and interpretation. The survey results were used as input into the assessment of particular evaluation issues, including the continued relevance of the program.

1.4 Challenges to the Evaluation

The main challenges faced by the evaluation study were the following:

- ❖ Difficulty in reaching new media companies – Some new media companies, even CNMF recipients were difficult to reach. The industry surveys in particular had a fairly high level of non-response. This may reflect the fact that most new media companies are very small.
- ❖ An evaluation planning phase was not conducted – Most evaluation studies are preceded by an evaluation planning phase, which, among other things, develops a program logic model and set of measurement indicators. In the case of the present evaluation, an evaluation planning phase was not undertaken. This meant that appropriate performance indicators had to be developed while the study was underway.
- ❖ The lack of clarity in the program's success criteria – As discussed in Section III that presents the study findings, key informants did not have a clear understanding of what success means in the case of the CNMF. In addition, no targets were originally established for the program. For example, out of the 235 product development projects funded by the program from 2001-02 to 2004-05, how many were expected to reach the market, and of these, how many were expected to become significant commercial successes? This is in contrast to other government programs in the cultural industries sector, such as the Canadian Feature Film Policy, where targets were established at the beginning.
- ❖ Little data are available on the results of CNMF projects. There is no systematic follow-up on “what happened” to projects funded by the program. As a result, the program cannot track basic performance indicators, such as the percentage of CNMF-funded projects that actually enter the market.

2 Profile of the Canada New Media Fund

This section presents a profile of the Canada New Media Fund (CNMF), structured according to the following topics:

- ❖ History and evolution.
- ❖ Rationale.
- ❖ Objectives and expected results.
- ❖ CNMF components.
- ❖ Governance and accountability.
- ❖ Resources and activity.
- ❖ Application process.
- ❖ Other sources of support.

2.1 History and Evolution

The CNMF is a component program of the Canadian Culture Online Strategy (CCOS) led by the Department of Canadian Heritage (PCH).

2.1.1 The Canadian Culture Online Strategy (CCOS)

The CCOS is a comprehensive strategy comprised of a number of component programs to enhance Canadian presence on the Internet and to improve accessibility to Canadian cultural content for all Canadians in both official languages. The CCOS originated in response to recommendations emerging from a number of reports prepared for the federal government in the 1990s and to a series of government announcements addressing Canadian culture within the context of the Internet and new media.

Among these, in the 2000 Budget, the Government made a commitment to “enhance the presence of Canadian cultural material on the Internet in both official languages” and later that year approved the Canadian Digital Cultural Content Initiative (CDCCI), which outlined measures to support cultural content creation in the digital

age. In May 2001, the Government approved the Canadian Internet Cultural Content Strategy (CICCS), a broad framework to stimulate development and production of, and access to, Canadian cultural content on the Internet as part of *“Tomorrow Starts Today”*, a major investment in Canadian culture. In August 2001, the CICCS I subsumed the CDCCI and augmented support for digitization of Canadian cultural content by introducing several new initiatives. In December 2001, the CICCS II introduced the remaining Internet-related measures outlined in the *“Tomorrow Starts Today”* announcement. This strategy is now commonly referred to as *Canadian Culture Online*.

The objectives of Canadian Culture Online (CCO) are to:

- Achieve a critical mass of Canadian cultural content on-line in both official languages.
- Build audiences and increase visibility for Canadian digital cultural content, notably by aggregating it on a cultural portal.
- Create an environment conducive to making Canada a world leader in new media production.

Four pillars were designed to support the achievement of the CCO objectives: 1) Digitization of Canadian Cultural Content; 2) Gateway to Canadian Cultural Content Online; 3) Tools to Facilitate Internet Content Creation; and, 4) Incentives for New Media Creation. The CNMF is part of the fourth pillar.⁴ This pillar seeks to help make Canada a world leader in digital cultural content creation by providing incentives to Canada’s new media sector to create such content. This objective is being pursued through the Canada New Media Fund and the New Media Sector Development Fund element, which became operational in 2003. The latter fund provides incentives to Canada’s new media sector through such projects as support to the Canada New Media Awards.

2.1.2 Canada New Media Fund

The CNMF had its origins in 1996-97 as a pilot project administered by Telefilm Canada to focus on emerging opportunities in the digital environment and the desire to achieve a high level of Canadian cultural content in new media production. Called the Pilot Program for Multimedia Assistance, it committed some \$2.1 million towards this goal over a two-year period. This pilot served as the model for the creation of the Multimedia Investment Fund, which was announced by the then Minister of Canadian Heritage on June 8, 1998. The establishment of the Fund

⁴ In September 2005, the Government approved a re-organization of the CCO pillars from four to three, to be consistent with the Department’s new Program Activity Architecture reporting structure. The three pillars are: Access to Heritage and Community Content; Sustainability and Environment; and Content Creation by the New Media Sector.

responded to the commitment made in the government document, *Securing our Future* (the 2000 Red Book), which was to provide \$15 million over five years to support the production and availability of multimedia products and content on the information highway in both English and French. The Department of Canadian Heritage entered into a contribution agreement with Telefilm Canada to administer the Fund. The initial budget for the Multimedia Fund called for \$30 million to be spent over 5 years.⁵

The objectives of the Multimedia Investment Fund, as set out in the contribution agreement between the Department and Telefilm Canada were the following⁶:

- Support financially the development, production and marketing of high-quality, original, interactive Canadian cultural multimedia works in both official languages intended for the general public.
- Provide Canadian consumers with greater access to Canadian cultural multimedia products.
- Assist in the growth and development of a Canadian multimedia production and distribution industry that is competitive in national and international markets.

In the Department's submission to the Government to establish this program, it indicated that a program of repayable contributions was the most appropriate financing instrument to support the development of the industry and the production and distribution of Canadian content.

In June 2000, the Multimedia Investment Fund was expanded with the addition of two new components: 1) Distribution Assistance component to increase the amount of Canadian cultural new media content on-line from the private sector and to improve the distribution and visibility of the content on the Internet; and 2) Sectoral Assistance component, to raise the profile of Canadian new media producers and works on the Internet.

Following a review of the Multimedia Investment Fund by Ernst & Young in March 2001,⁷ the Fund was modified in December 2001 as follows:

- The funding mechanism was modified: the repayable contribution mechanism was replaced with conditionally repayable contributions. The review report noted that the ability of companies to repay their Fund debt was in question, and it also negatively affected the ability of companies to attract additional financing.

⁵ Department of Canadian Heritage, *Assessment of the Role of Telefilm Canada in the Development of the Canadian Audio-Visual Sector*, prepared by Nordicity Group Ltd., March 2003.

⁶ Amendment to the Contribution Agreement between the Department of Canadian Heritage and Telefilm Canada, 2005, Appendix A, p. 1.

⁷ Ernst & Young, *Telefilm Canada: Review of the Multimedia Fund – The First Two Years*, March 2001.

It also had encouraged companies to develop projects that were more commercial than cultural in nature.

- The Fund's priority of providing support to projects that demonstrate significant Canadian cultural content was reconfirmed.
- The name of the program was changed to the Canada New Media Fund.

The Canada New Media Fund increased the annual funding available to Telefilm from approximately \$6 million to \$9 million.

On February 3, 2005, the level of funding was increased to \$14 million annually, to allow Telefilm to support a larger proportion of applicants and a wider spectrum of products.

2.2 Rationale

The rationale for the establishment of the CNMF can be pieced together by reviewing various government policy documents that led to the establishment of the original Multimedia Investment Fund in 1998 and the subsequent CNMF in 2001. Two key documents were the September 1997 Final Report of the Information Highway Advisory Council, *Preparing Canada for a Digital World*,⁸ and the June 1999 Report of the Standing Committee on Canadian Heritage, *A Sense of Place – A Sense of Being*.⁹

The essence of the rationale for government intervention in the new media sector was to ensure that there would be a Canadian presence on the Internet, thereby providing access to Canadian culture in this emerging global space. A secondary aspect of the rationale was to support the development of a Canadian new media industry (in order to produce the required cultural content). We developed this understanding of the program's rationale based on the following review of the key policy documents.

The 1997 Information Highway Advisory Council report notes the need to ensure access to Canadian content on the Internet:

As a global medium for the provision of information, education and entertainment, the Internet has raised a number of public policy issues. These relate to the production and distribution of Canadian content as well as to possible impacts on Canadian cultural values and diversity. We believe the Internet has the potential to

⁸ Information Highway Advisory Council, *Preparing Canada for a Digital World*, Final Report, September 1997. Available at: <http://www.parl.gc.ca/InfoComDoc/36/1/CHER/Studies/Reports/cherrp09-e.htm>

⁹ Standing Committee on Canadian Heritage, Ninth Report, *A Sense of Place – A Sense of Being, The Evolving Role of the Federal Government in Support of Culture in Canada*, June 1999. Available at: <http://www.parl.gc.ca/InfoComDoc/36/1/CHER/Studies/Reports/cherrp09-e.htm>

make a wide array of content available to Canadians, including content that reflects Canada and the creativity of Canadian creators and producers.¹⁰

Both of the above-noted policy documents emphasized the precarious state of traditional media, particularly film and sound recordings, which accounted for a very small share of the domestic market. The implication was that the new media sector would suffer a similar fate unless specific policy measures were developed and implemented. The 1997 Information Highway Advisory Council report noted that limited assistance was available to support Canadian multimedia production (the only programs being Telefilm's pilot program for multimedia production and a Canada Council program to encourage artists to use new media for artistic expression). The stimulus for the creation of the Multimedia Investment Fund is found in the following recommendation:

A Canadian multimedia fund should be established to support the development, production, distribution and marketing of Canadian cultural and educational multimedia products that foster a knowledge and understanding of Canada and create a greater understanding of Canada's cultural identity. The program should provide assistance in the form of loans and equity financing, with annual funding from government of at least \$50 million.¹¹

The Liberal Party of Canada's 2000 Red Book outlined commitments to stimulate the creation of Canadian cultural content for the Internet and accelerate the development of Canada's new media sector. The document again reinforces the notion of the need to ensure that Canadians have access to Canadian content on the Internet:

Globalization and the borderless information age raise some difficult questions about the ability of countries to carve out a unique cultural presence. In a world dominated by American television, films, and Internet sites, our goal as Canadians is not to keep that influence out but to ensure that Canadians have Canadian choices.¹²

The 2000 Red Book goes on to make the following commitment, "A new Liberal government will stimulate the creation of Canadian cultural content for the Internet, in both French and English, and will accelerate the development of new media production in Canada."

The 2001 Speech from the Throne carried through on this commitment, by announcing a policy to assist the development of digital content for the Internet, as part of supporting a "vibrant Canadian culture."¹³

¹⁰ Information Highway Advisory Council, *Preparing Canada*, p. 39.

¹¹ Information Highway Advisory Council, *Preparing Canada*, p. 67.

¹² Liberal Party of Canada, *Opportunity for All: The Liberal Plan for the Future of Canada*, 2000.

¹³ The 2001 Speech from the Throne is available at:

Because the Internet is a global medium – and highly dominated by U.S. content – the concern was identified in various documents that a diverse range of distinct Canadian cultural content in both English and French would not be assured. For example, an Ekos survey in 2000 stated that: “...Canadians, including nearly 7 in 10 Francophones, report difficulties finding Canadian content on the Internet.” The view was that it was necessary to build on these initial efforts to create a strong on-line cultural presence in both official languages, otherwise the risk would be that Canadians would have no choice but to learn by assimilating more foreign information and views, eroding their sense of belonging to Canada. It was predicted that this trend could worsen with the expansion of broadband access.

The 2001 Canadian Internet Cultural Content Strategy included several initiatives to address these concerns, including the digitization of Canadian cultural content and the development of a cultural portal on the Internet, as well as the provision of incentives for new media creation. The strategy would build on existing measures, such as the *Multimedia Investment Fund*, to invest in the development and sustainability of the new media industry. The Strategy states,

The vision behind the Canadian Internet Cultural Content Strategy (CICCS) is to use the Internet to foster a deepened understanding of Canada and its rich diversity. By introducing the appropriate set of Internet-related measures, the government of Canada can favour diversity and understanding of Canada’s culture and heritage. It can increase the participation of Canadians in the cultural life of Canada by giving access to cutting edge cultural products.

A secondary element of the CNMF’s rationale was to help develop and sustain a new media industry in Canada: the concept being that in order to have Canadian content on the Internet, a Canadian new media industry must be fostered to produce it. The 1997 Information Highway Advisory Council notes that the various proposed policy measures will have economic benefits, including, “... increased employment, stronger companies and greater private investment, but their primary purpose remains the furthering of cultural objectives.”¹⁴

While the body of policy documents all agree on the importance of supporting the production of Canadian cultural new media content, the level of resources devoted to this public policy objective has been criticized. For example, the final report of the Canadian Culture Online National Advisory Board in November 2004 emphasized the issue of the inadequacy of funding support to the CNMF.¹⁵ The report states, “...because funding for

http://www.pco-bcp.gc.ca/default.asp?Language=E&Page=pmarchive&Sub=factsheets&Doc=sftdigitaleconomy_20010130_e.htm

¹⁴ Information Highway Advisory Council, *Preparing Canada*, p. 70.

¹⁵ Government of Canada, Final Report of the Canadian Culture Online National Advisory Board, *A Charter for the Cultural Citizen Online: Canadian Culture Online*, November 2004. Available at: http://www.pch.gc.ca/progs/pcee-ccop/pubs/CanadianCulture/index_e.cfm

film dwarfs that for new media, the public perception is that the federal government is less committed to new media.” Given the dominance of the Internet by the United States, the report argues that American culture will increasingly dominate on-line spaces, putting Canadian culture, particularly English-language culture, at risk. It also states that it is naïve to hope that Canadian online cultural producers can assert themselves or even survive, based on a logic of revenue generation and profit.

The need for public financing for cultural new media products was the final element of the CNMF’s rationale. Public financing is required because self-financing (i.e., by private companies) of new media cultural products was viewed largely as an improbable prospect, as private sector risk capital is not attracted to these largely non-commercial projects.

We return to the analysis of the CNMF’s rationale in Section 3, where we examine its continued relevance.

2.3 Objectives and Expected Results

The 2001 terms and conditions for the program state that the objective of the CNMF is to “further the development, production and marketing/distribution of high-quality, original, interactive or on-line Canadian cultural new media works, in both official languages.”¹⁶

The contribution agreement goes on to state that, as a consequence, the Fund is to: provide Canadian consumers with greater access to Canadian cultural new media products; assist in the growth and development of a Canadian new media production industry that is competitive in international markets; establish and enhance Canadian distribution channels for new media cultural content that will benefit the entire sector; and, raise the profile and presence of new media creators in domestic and foreign markets while providing opportunities for professional development.

The contribution agreement also states that the anticipated results for the CNMF include:

- More diverse and visible Canadian cultural content on-line.
- Better distribution mechanisms for new media products.
- Greater participation of Canadian-owned and controlled companies active in the new media sector or in any group, agency or association representing Canadian new media creators.
- Greater opportunities for professional development through participation in events such as conferences, symposiums, workshops as well as through mentoring activities in collaboration with new media centres.

¹⁶ Department of Canadian Heritage, Amended Contribution Agreement between the Department of Canadian Heritage and the Canadian Film Development Corporation (Telefilm Canada), Appendix A, 2001.

- A leverage effect between cultural content creation on-line, enhanced distribution and sectoral awareness (for example, better distribution will encourage the creation of more content, which will lead to faster growth for the sector).

For the purposes of the evaluation study, the RFP specified that the immediate outcome of the CNMF is the creation of new media products. The intermediate outcome is increased distribution, availability and accessibility of a broad range of new Canadian interactive digital cultural products and content. The ultimate outcome is increased use by Canadians of interactive digital products and content.

2.4 CNMF Components

The CNMF has three components: 1) Product Assistance; 2) Online Distribution Assistance; and 3) Sectoral Assistance.

2.4.1 Product Assistance

This component provides financial contributions that are conditionally repayable for market research and prototyping, product development and marketing/distribution of original cultural new media products.

This is the largest of the three components of the CMNF, accounting for some 80 per cent of total funding.

The program supports a diverse range of projects under the Product Assistance component. There are two segments, on-line and off-line. In 2004-05, 61% of funding was devoted to on-line projects.¹⁷

Under the on-line segment, the most popular project category over the past few years has been web sites tied to Canadian television shows (called “convergent” web sites). English-language examples include *Degrassi*, *This is Daniel Cook*, *Falcon Beach* and *Odd Job Jack*, and French-language examples are *Cornemuse* and *Mission Antarctique*.

A second category is independent web sites, which includes downloadable games as well as edutainment sites, such as *Made in Montreal* (where users can explore the sights and sounds of the city).

A more recent and promising category is wireless products, including mobile games and mobile television.

¹⁷ Telefilm Canada, *Canada New Media Fund Annual Report, 2004-05*.

Under the off-line segment, formats include CD-ROMs, DVD-ROMs and game consoles.

For the market research and prototyping phase, CNMF contributions are generally repaid upon commencement of product development or upon the transfer, sale or other disposition of the development material. In cases where the CNMF contribution to product development is significant (i.e., in excess of \$50,000), and the producer is able to demonstrate the need to delay full repayment due to cash-flow constraints, then a portion of assistance may be repayable from revenues.

For the product development and marketing advances, these advances are to be recovered as a percentage of the revenues received by the recipient from the exploitation of the product.

2.4.2 Online Distribution Assistance

This component provides financial support for online distribution projects aimed at creating and/or enhancing the availability and visibility of existing Canadian new media products online.

Telefilm may provide financial assistance of up to 50 per cent of the final approved costs of the online distribution initiative, in the form of conditionally-repayable advances for projects that could include a variety of distribution-related activities. This could include joint distribution initiatives such as portals or the online distribution of a portfolio of new media content.

2.4.3 Sectoral Assistance

The third CNMF component provides support for sectoral awareness activities that encourage promotion and professional and industrial development of the new media industry, and by providing Canadian and international market support to the new media industry.

Telefilm provides non-repayable contributions and grants of up to 50 per cent of the final costs of initiatives; examples include: training programs offered by schools; professional development for producers and content creators; immersion initiatives; support to Canadian festivals; and operating costs of new media producer professional associations.

2.5 Governance and Accountability

Within PCH, the Canadian Culture Online Branch is responsible for the CNMF. Telefilm administers the program via a contribution agreement with the Department. The Canadian Culture Online National Advisory Board (NAB) was set up in 2003 to advise the

Minister of Canadian Heritage on the general direction and continued evolution of the CCOS. However, the NAB is no longer active. It filed its final report in November 2004.

The contribution agreement between PCH and Telefilm sets out Telefilm's reporting requirements to the Department. The main requirements include the following:

- ❖ Annual business plan, which describes the operational objectives, expected outcomes, improvements to be made to program administration, and detailed operating budget.
- ❖ Annual report, which details the key results in a format that is consistent with the Results-based Management and Accountability Framework (RMAF) for the Canadian Internet Cultural Content Strategy.
- ❖ Interim activity report, which provides a list of signed projects.
- ❖ Projected monthly cash flow of the Department's contribution, which is a detailed statement of the projected monthly cash flow of Telefilm, including the monthly inflow of the Department's contribution and the projected monthly cash flow.
- ❖ Annual audited financial statements. Financial statements for the CNMF are incorporated into the financial statements for Telefilm contained in its annual report.

In terms of reporting to Telefilm by CNMF recipients, Telefilm has a set of templates for Fund applicants and recipients that are available on its web site, including applications, cost reports, final cost reports, and exploitation reports. Applicants will also find at the same site program guidelines, which detail program objectives; eligibility criteria for applicants, the activities that will be funded, and costs; selection criteria, including an evaluation grid; and terms of participation.¹⁸

2.6 Resources and Activity

Exhibit 1 presents the annual PCH budget and expenditures for the CNMF. A multi-year contribution agreement for a total of \$27 million was prepared for the period 2001-02 to 2003-04, at an annual level of \$9 million. This was later amended to \$29 million, with an addition of \$2 million for the second year of the agreement (2002-03). For 2004-05, a single-year contribution agreement was signed, for \$9 million. For 2005-06 the budget was increased to \$14 million, in response to the high level of project applications each year. Note that the PCH budget includes direct program assistance expenditures as well as Telefilm's administrative expenditures. For 2004-05, Telefilm's administrative

¹⁸ See: http://www.telefilm.gc.ca/03/311.asp?fond_id=3

expenditures were set at 7 per cent of the total budget¹⁹. Authorities for up to 15% were granted by Treasury Board in May 2005.

Exhibit 1

Annual PCH Budget and Expenditures for CNMF Funding to Telefilm 2001-02 to 2005-06

	2001-02	2002-03	2003-04	2004-05	2005-06
Budget	\$9,000,000	\$11,000,000	\$10,011,347	\$9,000,000	\$14,000,000
Expenditures	\$6,000,000	\$9,027,016	\$9,563,144	\$9,237,729	NA ²⁰

Source: PCH files.

Within PCH, the program requires about 1.25 FTEs for direct administration and approximately \$65,000 in O&M annually for management and administration of the CNMF.

The breakdown of the 2004-05 \$9.0 million budget by the various CNMF components is shown in Exhibit 2.

Exhibit 2

Breakdown of CNMF Budget, by Component, 2004-05

CNMF Component	Budget (\$ millions)
Market research and prototyping	\$1.5
Product development	\$2.8
Marketing	\$2.9
Online distribution assistance	\$1.2
Sectoral assistance	\$0.6
Total	\$9.0

As noted above, Telefilm receives compensation from PCH for the administrative and communications expenses associated with delivering the Fund. The amount of these expenses is not to exceed 7 per cent of the Government's annual allocation to the CNMF (increased to 15% for 2005-06). The 7% maximum of the total annual contribution was established based upon the previous version of the program (the Multimedia Investment Fund), which was loans-based and had a much lower demand compared to the CNMF.

¹⁹ Amendment to the Contribution Agreement between the Department of Canadian Heritage and Telefilm Canada respecting the Canada New Media Fund, 2004-05, Appendix A, p. 5.

²⁰ The final expenditures for 2005-06 were not available as of June 2006.

When this rate was set, both Telefilm and the Department significantly under-estimated how much greater the demand, and therefore the administrative effort, would be.

Telefilm has an activity-based costing system that enables it to track the administrative costs for each program it administers. Note that the annual administrative costs for the CNMF are not separated out in Telefilm's annual audited financial statements. Telefilm reported that its administrative expenditures for 2004-05 were \$2.046 million.

Exhibit 3 shows the maximum amount of funding, by component, which may be provided to any specific project. As a general guide, Telefilm Canada's participation normally does not exceed 50 per cent of the approved budget for the relevant phase, up to the maximum for the phase indicated in the table.

Exhibit 3
Maximum Amounts of CNMF Project Funding, by Component

Component	Maximum Amount (\$)
Market research and prototyping	\$100,000
Product development	\$250,000
Marketing	\$200,000
Online distribution assistance	\$1,000,000
Sectoral assistance	\$1,000,000

Exhibit 4 summarizes the number of applications and the number of new projects that received CNMF funding for the four-year period covered by the evaluation. The table shows that the program is able to support a relatively small percentage of total applications each year, due in part to the impact of prior years' over-commitments.

Exhibit 4**Numbers of CNMF Applications and Approved Projects, 2001-02 to 2004-05**

	2001-02	2002-03	2003-04	2004-05
Number of applications received	264	406	363	334
Number of new projects funded	107	76	98	80
Funding rate	40.5%	18.7%	27.0%	24.0%

Source: Telefilm Canada.

Exhibit 5 shows the breakdown of the number of new projects by component, as well as the total project budgets for FY 2004-05. Over the years, the Fund has been fairly steady in its share of total production budgets, accounting for between 30 per cent to 36 per cent of the total over the four-year period.

In all four years, the demand in the Online Distribution Assistance component has been very low, with only one project funded in 2004-05, none in 2002-03 and one in 2001-02. Telefilm states that the major reason for the low demand is that the business model proposed, i.e., to support the creation of online portals to sell offline product, has been surpassed by other models. Telefilm has indicated that this Fund component needs to be better marketed, and that the eligibility format should be reassessed.²¹ Data from Delvinia's 2004 Interactive Media Producer Survey would support Telefilm's argument in favour of improved marketing: Only 51 per cent of the companies surveyed were aware of "Any government or corporate initiatives designed to fund interactive media projects."²² We discuss this subject further in the next section of the report.

²¹ Telefilm Canada, *Canada New Media Fund Annual Report 2003-2004*.

²² Delvinia Interactive, *The 2004 Canadian Interactive Media Producer's Survey*, July 2005, p. 57.

Exhibit 5
CNMF Commitments by Component, 2004-05

CNMF	2004-05		
	# of Projects	Telefilm Investment (\$'000)	Budget (\$'000)
Product			
Market Research &	23	\$1,660	\$3,851
Product	22	\$3,937	\$11,171
Marketing/Distributio	15	\$467	\$1,653
Sub-Total, Product	60	\$6,064	\$16,675
Online Distribution			
Online Distribution	1	\$100	\$199
Sectoral Assistance			
Sectoral Assistance	19	\$1,219	\$5,723
TOTAL	80	\$7,383	\$22,597

Source: Reports provided by Telefilm.

2.7 Application Process

The first step in the CNMF application process is for the applicant to submit an expression of interest, which summarizes the proposed project. This step was introduced in 2003-04 in order to increase efficiency and reduce the burden on applicants who were unlikely to succeed. Applications are processed at Telefilm's offices in Halifax, Montreal, Toronto and Vancouver. For market research/prototyping, the program budget is allocated to the regional offices. Each office makes funding decisions based on the scoring of their applications. Unused budget is reallocated to other offices that are oversubscribed.

For the Product Assistance component, the main selection criteria are:

- ❖ Canadian cultural content: 20 per cent
 - ⇒ Production team and creative talent (5 per cent).
 - ⇒ Subjects, themes, concerns (10 per cent).
 - ⇒ Cultural diversity of subject matter and content (5 per cent).

❖ Concept: 40 per cent:

- ⇒ Management experience, talent and technical know-how of the production team. (15 per cent)
- ⇒ Quality of proposed content, as shown by originality, importance and interest of subject matter and technological considerations. (25 per cent)

❖ Marketing: 40 per cent

- ⇒ Potential to reach the target audience. (25 per cent)
- ⇒ Business plan, demonstrating a viable revenue model, sufficiency and realism of the budget and market interest. (15 per cent)

Note that for the first criterion, Canadian cultural content, a project can score poorly on one or more of the sub-criteria and still be approved (i.e., there is no minimum threshold for each criterion).

Applications for production and marketing assistance are analyzed locally but compete at a national level for funding. The completed evaluation grids for each project, including factors considered in assigning scores in each section, are circulated to New Media staff in each office before the national meeting. The funding recommendations from the national meeting are approved at an executive level within Telefilm.

On April 1st, 2005, the above process was changed and each region makes its own funding decisions for all funding requests.

2.8 Other Sources of Support

In addition to the Canada New Media Fund, there are other sources of financial support for new media companies. As described in Section 3—Evaluation Findings, a popular source of funding for CNMF recipients is the Bell Broadcast and New Media Fund (<http://www.ipf.ca/Bell/English/BellFund.html>), commonly referred to as the “Bell Fund.” It has a more narrow focus compared to the CNMF, as it supports only convergent websites tied to television shows.

Other sources of funding for the industry include:

- ❖ Bell Broadcast and New Media Fund
- ❖ British Columbia Arts Council Project Assistance for Media Artists
(http://www.bcartscouncil.ca/programs/program.php?active_page=805&p=1)
- ❖ Canada Council for the Arts – Grants to New Media & Audio Artists
(<http://www.canadacouncil.ca/grants/mediaarts/pm127222998460468750.htm>)
- ❖ Conseil des arts et des lettres du Québec
(http://www.calq.gouv.qc.ca/artistes/arts_media_en.htm)
- ❖ Fonds d'investissement de la culture et des communications (<http://www.ficc.qc.ca/>)
- ❖ Manitoba Interactive Media Fund
- ❖ Nova Scotia Film Development Corporation-New Media Production Fund
(http://www.film.ns.ca/programs_newmedia.asp)
- ❖ Ontario Arts Council Grants to Media Artists
(<http://www.arts.on.ca/English/page-1-442-1.html>)
- ❖ Ontario Interactive Digital Media Small Business Growth Fund
- ❖ Ontario Media Development Corporation-Pl@tform program
(http://www.omdc.on.ca/English/pltform_sc1715.html)

In addition to these funds, there are tax programs in several provinces (e.g., the Manitoba Film and Video Production Tax Credit, Ontario Interactive Digital Media Tax Credit, Quebec Refundable Tax Credit for Multimedia, and Saskatchewan Film Employment Tax Credit). New Media BC maintains a list of programs which offer support to provincial video game producers.²³

²³ The list of programs is found in the “FAQs” section of the New Media BC website; see question no. 17 at <http://www.newmediabc.com/downloads/Games%20FAQ%20Sheet.pdf>.

3 Evaluation Findings

The study findings are organized by the evaluation issues and questions listed in Section 1.

3.1 Rationale and Relevance

3.1.1 Is there a continued need for the federal government to further the development, production and marketing/distribution of cultural new media products?

The CNMF focuses on the Canadian new media industry. Today's new media industry is the result of the gradual merging of traditional media and technology – an industry that began not at a single moment of invention, but through an evolution that continues today. Initially, the industry was known as the “multimedia” sector, producing applications and products that simultaneously incorporated multiple elements of traditional media, including text, graphics, sound, animation and still or moving images.

There is no uniform agreement on what constitutes a new media company, what comprises the sector, or precisely what activities fall inside the scope of “new media.” The CRTC defines new media as *“encompassing, singly or in combination, and whether interactive or not, services and products that make use of video, audio, graphics and alpha-numeric text, and involving, along with other more traditional means of distribution, digital delivery over networks interconnected on a local or global scale.”*²⁴

New Media BC, a not-for-profit industry association, divides the new media sector into three categories: 1) content producers (companies that develop digital content); 2) deliverers (companies that provide the “pipeline” for the delivery of new media content); and, 3) enablers (providing the tools and resources for the development of digital content, such as web authoring tools, security software, and other applications). The organization notes that companies in the sector often fall into multiple categories.²⁵

As described in Section 2, the original Multimedia Investment Fund introduced in 1998 and the subsequent CNMF introduced in 2001 were established by the

²⁴ CRTC Final Report: *New Media*. Telecom Public Notice CRTC 99-14. Broadcasting Public Notice CRTC 1999-84. May 17, 1999.

²⁵ “new_media/in_bc.ca 2003 Industry Media Survey”, New Media BC, 2003.

Government in order to ensure that Canadians would have access to Canadian cultural content on the Internet and in other formats. Public financing was required to support product development by new media companies because self-financing was viewed as a largely improbable prospect, since private sector risk capital would not be attracted to these largely non-commercial projects.

Our analysis of the new media sector concluded that the particular aspects of the sector that made new media producers particularly vulnerable to market forces have, in fact, become more severe since the introduction of the CNMF in 2001.²⁶ Over this timeframe, the sector has been marked by: a) rapid change; b) a reliance on rapidly changing technical skills; c) continual challenges in attracting funding; d) evolving business models; e) changing delivery methods, and, f) challenges to controlling copyrighted property. And exacerbating these sectoral challenges, many new media producers operate in the arena of popular culture, where tastes and markets change rapidly – and in fact more quickly than the lead time required to produce new media content. Even commercial projects find it difficult to attract capital unless the content involved has a recognizable brand, character, program, or other easily marketable attribute.

Our interviews with key informants, particularly new media companies, discussed the financial challenges facing companies. Several recipients of CNMF funding stated that government financial support is particularly important because business models in the sector continue to remain unclear. A comment made by one company representative succinctly summarizes the state of uncertainty: *“we aren’t sure if we are supposed to pay web sites to host our content, or if web sites are supposed to pay us for the use of our content.”* Thus in an environment where the usual risks of business are exacerbated by uncertain business models, government support mitigates the difficulty of sustaining a viable company. This was a recurring theme in interviews: the challenge of raising risk capital, finding a viable business model, and making a profit are particularly difficult in this sector, a result of the relative newness of the sector, the perception that content on the Internet should be “free,” the speed with which the sector is evolving, and the continuing emergence of new technology.

Those interviewees pursuing more culturally oriented (vs. commercially oriented) CNMF projects stated that support for the industry was important because it holds disproportionate potential for the expression of diverse and minority voices. Unlike traditional media, which require large, expensive infrastructure, as well as costly marketing and distribution efforts, new media projects can be produced, disseminated, and popularized relatively inexpensively. Government support for the

²⁶ A full discussion of the history, evolution, and characteristics of the new media sector can be found in the industry profile report prepared during the first phase of the evaluation: Kelly Sears Consulting Group, “Evaluation of the Canada New Media Fund: Industry and Program Overview Report,” submitted to PCH on January 26, 2006.

sector was viewed as an efficient way to support a plurality of voices in the cultural world.

We asked key informants whether they believe there is still a need for the federal government to support the production, marketing, and distribution of cultural new media products. There was a strong consensus in favour of support. Two typical comments were: *“The CNMF is absolutely essential to this industry”* and *“If the government doesn’t continue to intervene in this sector, Canadians will end up watching content produced someplace else.”*

Many interviewees commented on “the border problem,” i.e., the ease and degree to which American media spills into Canada. It was recognized that new media products travel more easily across borders than do traditional media. Interviewees expressed concern that if the federal government does not continue to support the production of cultural new media content, Canadian companies and voices will not be able to compete against the torrent of US media that arrives in Canada via the Internet and other new media platforms, such as video delivered on cell phones.

A July 2006 *Globe and Mail* article touched on this issue, noting that some of the most popular sites on the Internet, such as MySpace, BoingBoing, Fark and iFilm, are all American sites.²⁷

These American sites typically create Canadian versions that are predominantly the original (American) underlying content, complemented by the addition of minimal Canadian content (such as news) – and these sites are used by Canadian visitors to seek out mainstream, non-Canadian media. For example, Yahoo.ca, the Canadian version of the US site Yahoo, posts a “buzz log” on its front page, which tallies “Top Yahoo! Canada Web Searches.” This “buzz log” listing of top searches often contains little or no Canadian-content searches.²⁸ Beyond the sites run by traditional media outlets such as the CBC and the national newspapers, few, if any, popular sites could be called truly Canadian.

Another current example of the power of American-based cultural/educational websites is Wikipedia, the hugely popular on-line encyclopedia (www.wikipedia.org). Interestingly – and ironically from Canada’s perspective – this website has considerable information on the current Liberal Party leadership race. Thus a US-based website is being used to track the popularity of leadership hopefuls – an activity that Canadians might have logically expected to be found on a Canadian web site. To take another recent example, PetroCanada has started to show advertisement film clips on the YouTube web site, presumably recognizing the popularity of this site among Canadian consumers.

²⁷ The Globe and Mail, “This site sponsored by the U.S.A.,” July 1, 2006, p. R9.

²⁸ See <http://ca.buzz.yahoo.com/>

Interviewees highlighted what was originally a secondary element of the CNMF rationale: industrial development and its associated economic benefits for Canada. They stated that Canada has a potential opportunity to reap the economic benefits from supporting the continued development of the new media industry. The presence in Canada of strong new media companies, both as subsidiaries of multinational corporations and as independent Canadian companies, was an important indicator to signify that Canadian creative and technical talent can be internationally competitive in this sector – and, with proper government support policies, that competitiveness could be strengthened even further. Several companies that had been CNMF recipients were frequently mentioned as examples of strong players in the field:

- Artificial Mind and Movement, a Montreal-based game developer.
- Snap Media/Quickplay, a Toronto-based company that has become a leader in producing interactive content and mobile applications.
- Decode Entertainment, a Toronto-based TV and interactive media company.

Other companies cited as examples of Canada's strength in new media include Ubisoft in Montreal, and several companies in Vancouver: Electronic Arts, Barking Dog Studios, Relic Entertainment and Radical Entertainment. It was recognized that Electronic Arts, Ubisoft and Radical Entertainment are foreign-owned, but the fact that these multinational companies maintain a strong presence in Canada was believed to reflect well on Canada's strength in the sector.

A separate issue related to the overall rationale and design of the CNMF concerns the lack of clarity regarding the overall intent of the program. Many commented on the linkages between the CNMF's objectives and overall government objectives for the cultural industries. While some interviewees held the view that the CNMF should focus on supporting culturally-oriented projects, others stated that the CNMF should focus on projects that had the potential for independent viability in the marketplace. These views were strongly held, and seemed to be coloured by the pursuit of the interviewee, i.e., interviewees at business-oriented companies felt that the fund should pursue business-oriented projects, while others pursuing products with a "high cultural content" believed that the main objective is simply to provide Canadians with access to this content.

Interviewees were careful not to express judgements about the appropriateness of cultural vs. commercial objectives, especially those interviewees who favoured a CNMF that would focus on commercially-viable projects. Those respondents took pains to express the view that culturally-oriented projects should be supported by the federal government, but under a different type of support program – or, alternatively, that the CNMF should be overseen by a different part of Canadian

Heritage (to be associated with the policy centres for film and television) or perhaps by Industry Canada, due to its industrial development mandate.

Several interviewees couched this discussion in terms of Canadian content, and it was clear that this topic had been carefully considered. For example, they recommended that the CNMF requirement to support the production of content that has a particular “Canadian look and feel” should be removed, so that the Fund would support Canadian companies, artists, and storytellers. As one interviewee put it, *“We need to make our mark in the global marketplace by being the non-Americans. This doesn’t mean that every story we tell has to be about a small family from Saskatoon, but it does mean that we have to promote stories told by Canadians, which will have a Canadian perspective.”* Several respondents made the same point: by simply supporting Canadian new media producers, “Canadian sensibilities will come through,” no matter what the content focus.

Interestingly, our review of a sample of CNMF project files in Telefilm’s Toronto and Montreal offices indicated that Telefilm’s application review process already incorporates this suggestion of key informants. As described in Section 2, projects are assessed in terms of their level of Canadian content, with an emphasis on ensuring the projects are being undertaken by Canadian creators and companies. We noted that several projects have been accepted for funding that had Canadian creators but not necessarily Canadian stories or themes.

The tension between culturally-oriented producers and more commercially-oriented producers suggests that it is difficult to reconcile both cultural and industrial development goals in a single program. While culturally-oriented producers seemed generally satisfied with the program, market-oriented producers were concerned about the “fit” of the CNMF with marketplace realities, such as the levels of funding provided, repayment terms, intellectual property licensing conditions, levels of producers fees, and other aspects related to bringing content to market. We return to these details related to the CNMF’s design later (under evaluation issue #9). But the overall recommendation emerging from the interviews is that a complimentary industrial strategy is needed for the new media sector. Indeed, one industry association noted that this would be a policy priority in 2006.

A related issue that emerged, again pertaining to overall priorities, was the difference between supporting companies vs. supporting projects. There was a sense that providing support on a project-by-project basis was not effective in creating companies, or industrial capacity, although most interviewees had no ready alternative solution. One interviewee suggested that companies be given larger lump sum amounts, constrained by reporting and accounting requirements, but be allowed the freedom to apply those funds across a range of projects as they would see fit to do. Another possibility would be for companies to be allowed to bring forth slates of projects for support under the CNMF, in different stages of development, and seek financial support for that group of projects. Such an approach, however, would

necessitate supporting larger companies which would have the ability to manage multiple projects. Given that the list of key informant interviews involved a relatively small number of companies, this issue requires further investigation by PCH and Telefilm in consultation with the industry.

The industry survey commissioned by PCH provides information pertaining to the issue of continued need for federal government support to the new media industry. As described in Section I, the survey included three types of companies: CNMF recipients, CNMF applicants (companies that applied to the CNMF but did not become recipients) and non-applicants. Survey respondents in each category were asked to identify the three most significant challenges facing their organization over the next three years. Exhibit 6 presents the results.

Among recipients and applicants, the main challenge identified was lack of access to capital to develop new products. Among non-applicants, this factor was tied with shortage of skilled labour as the top challenge; the other two groups identified shortage of skilled labour as the number three challenge. Staying current with technological advances was the number two challenge among recipients and applicants, while it ranked number three among non-applicants. An example of this challenge was the requirement for staff to continually learn new underlying computer languages in order to create new products. Interestingly, among non-applicants, two other challenges identified by over 10 per cent of respondents were holding on to skilled staff and managing growth, indicating that non-applicants may have been having greater commercial success compared to recipients.

These challenges correspond to the findings of many previous studies. As noted in our profile of the new media industry, companies face a variety of challenges, including:

- **Rapid change** – New media producers exist in an environment characterized by rapid technical change. Exacerbating this challenge is that they also operate in the arena of popular culture, where tastes and markets also change rapidly.
- **Reliance on technical skills** – Companies are dependent on the technology that makes new media applications possible. This requires them to have a high level of technical skill and to continually refresh their capabilities in the face of the rapidly changing environment.
- **Access to capital** – Industry surveys have repeatedly cited lack of funding as a major impediment to growth. Most Canadian new media companies are very small and new, and reflect the high level of risk characteristic of the high technology sector in general and cultural industries in particular.
- **Emerging business models** – Advertising is increasingly driving business models, and the industry has to adapt to the need to attract audiences and to

measure those audiences, in order to demonstrate to their sponsors the market value of their content.

- **Copyright** – The debate over file sharing, copyright and fair use continues, with millions of consumers accessing cultural products through peer-to-peer trading programs that allow content to be copied with no economic benefit being conferred to the copyright owner. New media producers thus run the risk of forgoing potential revenues where their content is copied and used without their control.

Exhibit 6 Main Challenges Facing New Media Companies

“What are the three most significant challenges facing your organization in the next three years?”

	Per Cent of Respondents (top three challenges in bold)		
	Recipients	Applicants	Non-Applicants
Lack of capital/financing to develop new products	68.4	57.5	32.3
Staying current with technological advances	21.1	28.8	20.4
Shortage of skilled labour	17.5	17.5	32.3
Finding viable business models	12.3	8.8	1.1
Marketing	12.3	17.5	10.8
Holding on to skilled staff	5.3	3.8	11.8
Managing growth	8.8	8.8	18.3
n	57	80	93

When asked about support received from other funding sources, the main alternative funding source identified was the Bell New Media Fund, which had been accessed by 33 per cent of recipients.

In terms of federal/provincial/territorial tax credit programs, 51 per cent stated that they had not used these programs. The only source mentioned by more than 10 per cent of companies was the Scientific Research and Experimental Development (SR&ED) tax credit (only 12 per cent of companies had used it).

Respondents were asked directly about the level of importance of CNMF funding to the overall success of the new media sector in Canada. The results are shown in Exhibit 7. Virtually all recipients (97 per cent) stated that the Fund was either very important or important. The level of support was also very strong among applicants (94 per cent), although a lower percentage stated that the Fund was very important

(51 per cent, compared to 77 per cent for recipients). Among non-applicants, the level of support was still very strong (82 per cent), although fewer respondents (39 per cent) felt the Fund was very important.

Clearly, there is high level of support for the CNMF throughout the new media sector.

Exhibit 7

Level of Importance of CNMF to Success of New Media Sector

“Would you say that the CNMF financing from Telefilm Canada is important to the overall success of the new media sector in Canada?”

	Per Cent of Respondents		
	Recipients	Applicants	Non-Applicants
Very important	77.2	51.3	38.5
Important	19.3	42.5	43.1
Not important	1.8	5.1	12.3
Don't know/no response	1.8	1.3	6.2
Total %	100.0	100.0	100.0
n	57	80	93

CNMF companies that had received product assistance funding were asked whether federal government assistance is required to support the development of Canadian new media market research and prototyping as well as the development and marketing of new media works. As shown in Exhibit 8, the results indicate that CNMF recipient companies are highly supportive of federal government involvement in both of these areas.

Exhibit 8

Need for Federal Government Assistance

“Do you agree that federal government assistance is needed to support Canadian new media market research and prototyping?”

“Do you agree that federal government support is needed to support the development and marketing of new media works?”

	Per Cent Agree		
	Recipients	Applicants	Non-Applicants
Federal government assistance is needed to support Canadian new media market research and prototyping	98.2	94.1	94.6
Federal government assistance is needed to support the development and marketing of new media works	98.2	92.6	94.6
n	49	68	37

Note: For recipients, asked to those that had received product assistance support. For applicants and non-applicants, asked of those who were aware that Telefilm offered product assistance.

Finally, companies that had received CNMF product assistance were asked whether this assistance was important to the success of their company. The results are shown in Exhibit 9. Overall, some 94 per cent of companies stated that CNMF product assistance was important to the success of their companies.

Exhibit 9

Importance of CNMF Product Assistance to Company Success

“Overall, was the CNMF product assistance financing important to the success of your company?”
(n=49)

Per Cent of Respondents				
Very important	Important	Not very important	Not at all important	Total
67.3	26.5	4.1	2.0	100%

Note: Asked of companies that had received CNMF product assistance support

The other source of evidence on evaluation issue #1 is the results of the public opinion survey commissioned by PCH. The survey was undertaken by Consumer Research Associates and conducted by Decima Research. The survey, which was part of a larger omnibus survey, asked 2,103 Canadians for their views on whether the federal government should support the development of interactive Canadian cultural content. The survey also obtained information on the extent to which Canadians use

the Internet to search for cultural information. The results are summarized in Exhibits 10 and 11.

While Canadians generally believe that it is important for the federal government to support the development of interactive cultural content on the Internet and through other platforms, the level of support is positive but not overwhelmingly so. As shown in Exhibit 10, some 62 per cent stated that support was important, but 31 per cent stated that it was not important (and 7 per cent didn't know or were not sure).

Of those who stated that support was important, the most popular reasons provided were: 1) promoting Canada's culture is important (28 per cent of total); 2) for general informational or educational purposes (16 per cent); and, 3) it is important to support Canada's cultural community (15 per cent).

Of those who stated that it is not important for the government to support the development of interactive Canadian cultural content, the two most popular reasons provided were: 1) other government priorities are of greater importance (26 per cent); and 2) the private sector should be left to carry out this task (22 per cent).

In terms of Canadians' use of the Internet to search for cultural material, the results in Exhibit 11 indicate that, overall, 54 per cent of Internet users had searched for Canadian cultural material on the Internet in the preceding 6 months. And of this group, the mean number of searches was 8.4 – or roughly 1.4 searches per month.

The survey also asked Internet users whether they had participated in other types of Canadian cultural experiences online. Internet users were asked how often, over the preceding six months, they had played an interactive game online or visited a website associated with a Canadian television show, movie or museum. The results are shown in Exhibit 11. Overall, the most popular type of online cultural experience was visiting a website connected with a Canadian television show, as 39 per cent of Internet users had at least one such visit. The mean number of visits was 4.8. The other three activities – playing an interactive game online, visiting a Canadian movie website and visiting a Canadian museum website – were somewhat less popular. About 25 per cent of Internet users had played an interactive game online, compared to 27 per cent and 29 per cent who had visited Canadian movie and museum websites, respectively. Of the respondents who had participated in these various types of Canadian cultural experiences, the most popular experience was playing an online game, as users reported a mean frequency of 6.3 times during the preceding 6 months.

Looking at those respondents who had played an interactive online game, the level of usage was, not surprisingly, much higher among younger Canadians (18-24 year-old cohort). Some 53 per cent of this group had played an interactive game online in the preceding 6 months, and the mean frequency was 11.8 times.

Finally, a 2005 EKOS survey also investigated Canadians' use of the Internet to find Canadian information in general and cultural material specifically.²⁹ The study found that Canadians are having less difficulty finding Canadian cultural material on the Internet. But about one-half of Canadians were unsure of whether there is enough Canadian content on-line. The study also confirmed the finding above that Canadians are in favour of government investment in programs that support a greater amount of Canadian content on the Internet.

Summary — Need for federal government support. The essence of the rationale for government intervention in the new media sector was to ensure that there would be a Canadian presence on the Internet, thereby providing access to Canadian culture in this emerging global space. A secondary aspect of the rationale was to support the development of a Canadian new media industry (in order to produce the required cultural content).

The evidence indicates that the federal government needs to continue to support the new media sector, not only to ensure Canada reaps the economic rewards from an increasingly important sector, but to ensure Canadian-based companies and products will be an important part of the Internet and other formats.

New media companies reported that support from the CNMF is very important in helping to address a lack of financing – one of the major challenges they face in creating content. A majority of Canadians surveyed believe that such support is important.

²⁹ EKOS, “The Current Landscape”, presentation to Canadian Heritage, May 24th, 2005.

Exhibit 10

Results of Public Opinion Survey – Importance of Federal Government Support to the Development of Interactive Canadian Cultural Content

Q. 1 – Do you think it is important for the federal government to support the development of interactive Canadian cultural content that is accessible on the Internet and through other devices such as PCs, cellular phones, and gaming consoles?

Not at All Important	Not Very Important	Important	Very Important	Don't Know	Total	n
(per cent)						
11%	20%	44%	18%	7%	100%	2,013

Q. 2 – Why do you believe it is important/not important?

a) Responses for those stating support is **important** in Q. 1 (responses accounting for >10% of total)

Response	Per Cent (n = 1,252)
▪ Promoting Canada's culture is important/necessary	28%
▪ For informational purposes/to gain knowledge/ for education	16%
▪ To support the Canadian cultural community	15%
▪ The Internet is a good medium to communicate such information	13%

b) Responses for those stating support is **not important** in Q. 1 (responses accounting for >8% of total)

Response	Per Cent (n = 652)
▪ Other government priorities are of greater importance	26%
▪ Private sector should be self-sufficient	22%
▪ Internet is not the best medium/not accessible to everyone	15%
▪ A waste of money/tax payers' dollars	9%

Exhibit 11

Results of Public Opinion Survey – Canadians' Usage of Canadian Cultural Products via the Internet and Other Platforms

Q. 3 – *In the last six months, how many times have you personally: a) searched on the Internet for Canadian cultural material; b) played an interactive game online; c) visited a Canadian TV show website; d) visited a Canadian movie website; and, e) visited a Canadian museum website?*

Note: Asked of Internet users only.
(n=815)

Activity	Number of Times							
	None	1-3	4-10	11-20	>20	Don't Know	Total	Mean Number of Times
	(per cent)							
a) Searched on the Internet for Canadian cultural material (cultural websites, educational/other games, etc.)	46%	15%	18%	6%	9%	6%	100%	8.4
b) Played an interactive game online	75%	6%	6%	3%	6%	4%	100%	6.3
c) Visited a Canadian TV show website	61%	17%	11%	4%	4%	3%	100%	4.8
d) Visited a Canadian movie website	74%	14%	7%	2%	1%	3%	100%	1.5
e) Visited a Canadian museum website	71%	20%	5%	1%	1%	2%	100%	1.6

3.1.2 How does the CNMF link to the current priorities of the Government of Canada?

As described in Section II, the CNMF program is a component of the Canadian Cultural Online Strategy. This strategy was clearly specified in documents stating the priorities of the previous government. For example, the October 2004 *Speech from the Throne* states that a priority of the government was to support cultural expression. In 2005-06, the government approved the renewal of the Canadian Cultural Online Strategy for FYs 2006-07 to 2009-10. In renewing the CCOS, the government stated that the CNMF is an integral part of the Canadian Culture Online Strategy and that the Fund is “essential to the development of the new media industry in Canada”, and that it is one of the ways that CCO fulfils its RMAF commitment to make Canadian cultural and new media industries more competitive.

The CNMF is aligned with the Department’s Program Activity Architecture. Within the “Creation of Canadian Content and Performance Excellence” program activity, one of the sub-activities is “arts and cultural industries,” and the CNMF is part of the “New/Interactive Media Content Development” sub-sub activity.

With the election of the Conservative minority government in early January 2006, the government’s current priorities are outlined in the May 2006 Budget plan. Arts and culture is not listed as one of the government’s major priorities, and the Canadian Cultural Online Strategy is not mentioned in the Budget. However, in our view, this should not be interpreted as a lack of support for arts and culture; many other important public policy issues did not make it to the shortlist of “top 5” government priorities. In June 2006, the government announced a study into the effects of changing technology on the radio and television industries, which is to be completed by December 2006.

Summary – The CNMF and its linkage to the priorities of the federal government: The current minority government has not yet stated a new set of priorities with respect towards arts and culture in general and new media in particular.

3.2 Success

3.2.1 To what extent has the CNMF been successful in achieving its immediate outcome?

The Terms of Reference for the evaluation study states that the immediate outcome of the CNMF is “the creation of new media products.” An evaluation study of a funding program attempts to assess whether the program has had any incremental impact. For example, if most of the funded projects would have been carried out

anyway in the absence of program support, then one can conclude that the program has had little incremental impact.

The survey of CNMF recipients asked several questions about the impact of the Fund on the ability of companies to develop new media products.

CNMF companies that had received product assistance funding were asked about the impact of the Fund on their CNMF projects. The results are shown in Exhibit 12. The results indicate that had CNMF funding not been available, then companies would have both developed as well as produced fewer new media products.

When asked specifically about their last product assistance project, some 71% of recipient companies indicated that this project would not have proceeded without program assistance.

Exhibit 12

Impacts of CNMF Product Assistance on Product Development

"Now I would like to ask if you agree or disagree with the following statements about the impact of the CNMF."

Note: Asked of CNMF recipients that had received product assistance support (n=49)

	Per Cent of Respondents					
	Strongly agree	Agree	Disagree	Strongly disagree	DK/NA	Total
Without product assistance from the CNMF, your firm would <u>develop</u> fewer new media products	65.3	24.5	6.1	4.1	0.0	100%
Without product assistance from the CNMF, your firm would <u>produce</u> fewer new media products	63.3	24.5	4.1	6.1	2.0	100%
Your last product assistance project funded by the CNMF would have proceeded without CNMF financial support	6.1	20.4	20.4	51.0	2.0	100%

The issue of incrementality was also investigated by the survey of applicant companies. They were asked questions about the impacts of not receiving CNMF support. The results are shown in Exhibit 13, parts i) to iv). The results are consistent with the findings of the recipients survey. Some 55 per cent of applicants stated that their projects did not proceed in the absence of CNMF support, while only 30 per cent stated that the project did proceed, and 15 per cent were not sure.

Exhibit 13

Views of Applicants on Impacts of Not Receiving CNMF Support

- i) *“I would like to ask you about the last project for which you applied but did not receive CNMF Product Assistance financing. Did your organization proceed with this project, even though you did not receive CNMF financing for it?”*

Note: Asked of applicants who were aware they had previously applied for CNMF product assistance (n=53)

	Per Cent of respondents
Yes, the project did proceed	30.2
No, the project did not proceed	54.7
DK/NA	15.1
Total	100.0%

- ii) *“And as best as you can say, was the overall scope of the project that proceeded similar in scope to the project proposed for CNMF financing?”*

Note: Asked of CNMF applicants who answered “yes” in part i) above. (n=16)

	Per Cent of respondents
The same scope as	25.0
Smaller scope than	62.5
Larger scope than	12.5
Total	100.0%

- iii) *“Was the project that proceeded delayed or not, as a result of not receiving CNMF financing?”*

Note: Asked of CNMF applicants who answered “yes” in part i) above. (n=16)

	Per Cent of respondents
Yes, the project was delayed	81.3
No, the project was not delayed	18.8
Total	100.0%

Exhibit 13 – cont'd

Views of Applicants on Impacts of Not Receiving CNMF Support

iv) *“Did the fact that you did not receive CNMF financing affect your ability to raise funds elsewhere for the project?”*

*Note: Asked of CNMF applicants who answered “yes” in part i) above.
(n=16)*

	Per Cent of Respondents
Yes, the fact that there was no CNMF financing affected our ability to raise funds elsewhere for the project	75.0
No, the fact that there was no CNMF financing did not affect our ability to raise funds elsewhere for the project	25.0
Total	100.0%

Applicants who indicated that their projects proceeded without CNMF support were then asked whether the project had to be changed in anyway. Some 63 per cent stated that the project had to be reduced in scope, 81 per cent stated that the project was delayed, and 75 per cent indicated that the lack of CNMF financing affected their ability to raise funds elsewhere.

Clearly, the survey results support the view that CNMF funding has an incremental impact on the development of new media products.

The results of the key informant views support the survey findings. The CNMF recipient companies that were pursuing more culturally-oriented projects stated that they would not be able to survive as companies without support from the CNMF (as well as from other government funding sources). Others who were pursuing more commercially-oriented projects said that they would likely survive as a company without CNMF support, but at a lower level of activity, or at a slower pace of development.

These findings were supported by the file review. In many cases, CNMF recipients are very small, start-up companies, and the CNMF product assistance was sometimes their first attempt at developing a new media product.

Regarding the impact of the CNMF funding on new media projects specifically, while a few recipients stated that without the CNMF, they would have found the money for their projects elsewhere, a majority of recipient interviewees stated that the projects would not have come to fruition. In other words, of the CNMF-funded projects at

either the prototyping or product development stage that led to new media products (e.g., web sites, downloadable Internet games, offline games on CD-ROM), key informants indicated that most would not have proceeded in the absence of the program. The main reason is that there are few other funding sources for these sorts of cultural (high risk) projects, and CNMF funding is required in order to tap into whatever other funding sources are available. However, as a number of these companies' projects were still in the "prototyping" stage, it was not yet certain if those projects would actually come to market.

Many funding recipients stated that getting a financial commitment from a federal government program (the CNMF) helped to encourage other investors to make commitments. The CNMF was often the first commitment that a company would receive for a project, and with the "stamp of approval" provided by the CNMF and a government agency (Telefilm), this made it easier for those companies to convince other prospective investors that the project was worthy of investment.

Summary – Achievement of immediate outcome: The evidence indicates that the CNMF program has had an incremental impact on the development and production of new media products. Had CNMF funding not been available, most projects likely would not have proceeded. Few other funding sources are available for these sorts of cultural (high risk) projects. A commitment from the CNMF is often required before companies could approach other investors to make commitments.

3.2.2 To what extent has the CNMF contributed to the achievement of its intermediate and long-term outcomes?

For the purpose of the evaluation, the intermediate outcome of the CNMF was defined as "increased distribution, availability and accessibility of a broad range of new Canadian interactive digital cultural products and content." This outcome relates to the success of the program in helping companies to get their new media products to market. The ultimate outcome of the CNMF was specified in the Terms of Reference as "increased use by Canadians of interactive digital cultural products and content."

We assessed these two outcomes in several ways. The key informant interviews included some CNMF-funded companies, and we asked them to describe how they measure the success of their projects. Our review of a sample of CNMF files at Telefilm looked for evidence on the success of projects (e.g., whether any outcome information is reported by companies to Telefilm). Telefilm provided some recent data on website traffic for some CNMF-supported projects. Telefilm also provided data on recoupment for all CNMF projects over the past several years. Recoupment from CNMF-supported products is a measure of commercial success.

Due to the level of maturity of the new media industry – and the as-yet elusiveness of successful business models – the Fund has focused more on measures of access by

Canadians than on the revenues generated by CNMF-supported products. However, given that recoupment is a component of a project's contractual terms and conditions, we reviewed recoupment revenues over the time period covered by the evaluation.

Within the product assistance category, CNMF contracts specify that recoupment applies to both the market research/prototyping and production/marketing stages.

Prior to 2004-05, companies receiving market research/prototyping support were required to repay their development advances once the project entered the production phase. In 2004-05, Telefilm changed this requirement in light of the cash flow difficulties of many small new media companies, so that repayment of advances may be deferred to the point at which companies are receiving revenues from the exploitation of the product. Telefilm's recoupment database indicates that for market research/prototyping projects, a total of \$1,532,045 in recoupment revenues were received from 2002-03 to January 2006.

Companies receiving production/marketing assistance are required to repay the CNMF contribution once the product enters distribution. The repayment is calculated using a formula based on sales. Companies are required to submit exploitation reports semi-annually to Telefilm, which provide details on gross revenues generated by the product due to distribution. The data indicate that few CNMF production/marketing projects have made any repayments to Telefilm. Of the total of \$27.9 million invested in 235 production/marketing projects between 2002 and 2005, only \$525K has been recouped as of January 2006, or 1.8 per cent of the total. Of these 235 projects, only 45 had any recoupment revenue, and the average revenue per project was \$11,671 (compared to an average commitment per project of \$118,534). However, it should be noted that for more recent projects (e.g., those funded in 2004-05), in many cases it may be too early to expect any distribution revenues, since some projects may not be completed yet, or others may have entered distribution, but revenues have not yet been reported to Telefilm.

While the value of repayments from production/marketing projects is very low and indicates that few projects found revenue models that resulted in the triggering of repayment, it is perhaps not surprising. The program has focused on funding niche Canadian cultural products. While some of these projects, particularly convergent web sites, have succeeded in reaching audiences (as discussed later in this section), the typical business model described in the CNMF project application was not based on revenue generation. Should PCH decide to continue with the CNMF program it will be important to refine the objectives and measures of success of the Fund and determine what role repayment plays in the design of the program.

Two related measures of the success of CNMF projects are the percentage of market research/prototyping projects that get produced and the percentage of production/marketing projects that get distributed (i.e., reach the market).

Telefilm's CNMF annual report does not report data on these two measures. Telefilm indicated that while it does not yet have a process in place to track those market research/prototyping projects that enter distribution without Telefilm support, this issue is being examined and a proposal is being developed. We also noted that the CNMF project files include little information on "what happened" to projects once the final CNMF payment was issued. We would encourage Telefilm to formally track post-project results and include data on these two success measures in future annual reports.

Our interviews with key informants covered the subject of project success. A key finding is that there is not a clear understanding of the appropriate measure of ultimate success for the Fund: what it currently is, and what it should be. This may be partly due to the lack of clarity about the objectives of the program, as described earlier. This is in marked contrast to traditional media sectors, particularly Canadian film, where box office success is recognized as the key indicator and valid data from a third party are readily available. A suggestion was made that success in the case of the CNMF should be balanced against industry averages: in other words, in the traditional media business, on average a small percentage of project concepts actually come to market, and of those, a small percentage are successful. (For example, various estimates suggest that only 10 of every 100-200 movie scripts attract development money, which is used to sketch out a movie's concept and elements; that of every ten movies made by major Hollywood film studios, only one in ten is profitable in cinemas.) For traditional media companies, in the end, the financial bottom-line is the key measure: those few successful products must generate a sufficient return to satisfy investors.

Other interviewees noted that, if the goal of the fund is simply to create culturally-oriented content for Canadians to see, then more uniform measurement tools need to be implemented to compile those statistics. As described below, Telefilm has been working on an appropriate methodology for compiling website traffic statistics.

We asked CNMF recipient companies to provide information on the audiences for their CNMF products. We found companies to be somewhat reluctant to discuss audience numbers, due to a couple of factors, including the methodological challenge in obtaining valid audience numbers and the fact that audience is related to the sensitive topic of financial viability.

Companies that had brought CNMF-funded online products to market were generally aware of the audience for their products, but did not provide statistics beyond the general. The viewership estimates for their web-based projects supported by the CNMF ranged widely, from estimates of "about 300,000 hits per year"³⁰, to "100,000 over several months"³¹, to "over 10,000,000 in one year."³² One company indicated

³⁰ Cited for a culturally-oriented Francophone web site.

³¹ Cited for a culturally-oriented local community web site.

that unit sales had been very modest, i.e., “a few thousand or so”, and we sensed some disappointment in these results. (We reviewed the CNMF project file for this company, and noted that the original market expectations were much greater.) However, without comprehensive and precise usage numbers, and a context for those numbers, it is impossible to use them as a yardstick with which to measure outcomes.

Telefilm has long recognized the need to generate valid data on website viewership and has been working over the past couple of years to develop an appropriate methodology for aggregating web site traffic statistics across a sample of CNMF-supported web sites. Telefilm has been actively tracking audiences for the websites it finances since the fall of 2004, when it commissioned Marigny Inc. to develop a methodology and tracking system. Following the initial pilot, Telefilm then engaged Phase 5 Research to further develop the initiative.

Telefilm was further challenged by the fact that there are no standard benchmarks against which to base new media measurement. Therefore, in late 2005, Telefilm invited the Bell Broadcast and New Media Fund and the Canadian Culture Online Branch of PCH to join the project, and the three partners have helped to finance web traffic measurement carried out by Phase 5. This company has begun to produce regularly quarterly reports that include such metrics as unique visitor, hits and page views. Phase 5 interprets and analyzes the data so as to indicate the relative success of a project based on intra-project comparisons and trends over time. Preliminary results indicate that convergent web sites supporting youth-oriented television shows tend to draw substantial audiences.

Our inquiry into assessing outcomes with respect to audience measurement led to several conclusions. First, it is imperative that a uniform methodology be established to report and measure the use of projects funded by the CNMF. As noted above, Telefilm is currently finalizing a methodology. It is critical that all projects that receive CNMF funding and go into distribution be required, as a condition of support, to both forecast and report usage in accordance with the established methodology.

Second, we note that usage numbers in and of themselves are only somewhat useful. While usage statistics will provide an absolute measurement of the extent to which CNMF-funded programming is being seen, statistics also need to be analysed in the context of the work itself, and the goals for the work. In other words, if the CNMF were to fund a website for a popular Canadian television program, that website would have a ready audience, a regular advertising vehicle (the television broadcast), and broad name recognition. On the other hand, if the CNMF were to fund a new media product that is an original game concept, with important historical or cultural aspects, it would be difficult to reach a wide audience – as most new games are risky

³² Cited for a web site tied to a popular Canadian television program.

propositions, and it can be difficult to “break out” with games that are not tied to existing commercial properties or supported by heavy marketing budgets. This is not to suggest that each project be judged solely on the basis of usage forecasts, but rather, that expectations for usage be realistically set at the outset of each project, in accordance with the type of project undertaken, and that these forecasts be later confirmed against actual results. This will enable Telefilm and PCH to effectively measure the extent to which the goal of reaching audiences has been met, and to measure the performance of funding judgements against actual outcomes for projects as a group. Telefilm indicated that as part of its web traffic methodology, Phase 5 uses several comparison approaches. Projects are compared across the age-based genres as well as language groups. An accompanying raw data file is included each month allowing Telefilm analysts to drill deeper into the audience data and to produce customized performance reports as required.

All CNMF recipients interviewed, whether satisfied with the volume of their audience or not, stressed the difficulty of getting noticed in the new media world, and the challenges associated with translating viewership, downloads or shipments into profitability. This difficulty, in turn, led to the view, as described earlier, that the Fund’s importance is heightened due to the lack of clear business models in the sector, a situation compounded by the risky nature of most new media projects. Recipients associated with culturally-oriented endeavours stated that they would never be able to survive if forced to rely upon the market alone for capital and income, while more commercially-oriented fund recipients stated that making a business model work remained a daunting challenge.

Although the focus of the evaluation study was on assessing the Product Assistance component of the CNMF, we did obtain feedback on the other two components, Online Distribution and Sectoral Assistance.

Most key informants were unaware of the existence of the Online Distribution component, and the few who were aware of it were uncertain as to what purpose those funds might be put. The demand for this component has been very low over the years; for example, only one project was funded in 2004-05. Telefilm indicated that the main reason for the low level of demand is that the business model originally proposed – to support the creation of on-line portals that sell off-line product – is now outdated. Even after allowing applicants to distribute on-line content, interest in this component has remained low. In its 2004-05 CNMF Annual Report, Telefilm indicated that this component is not well known or understood, thus suggesting further outreach was needed.

The PCH industry survey confirmed the low level of awareness of the Online Distribution component. The level of awareness of this component among recipients, applicants and non-applicants was 47%, 48% and 26%, respectively. Several key informants felt that the purpose of this component was either to a) re-purpose

previously developed content for new media; or b) utilize “older” distribution methods, such as the distribution of media onto CD-ROMs.

With respect to the Online Distribution Component of the CNMF, interviewees felt that assistance is needed to distribute content, but that distribution support needs to reflect the evolving realities of the Internet. For example, one suggestion was that CNMF provide funds to distribution entities – web portals and companies hosting web sites – to acquire and host Canadian content on their sites. In fact, current guidelines appear to allow for such flexibility, and thus the main issue concerning Online Distribution seems to be that there is a low awareness and a poor understanding of the assistance it offers.

While not completely understanding the purpose and use of the Online Distribution component, many interviewees expressed a desire for stronger connections in the international marketplace, including through distribution arrangements. The feeling was that Canadian content offers an attractive alternative to multinational media offerings, the costs of international distribution are relatively low, and new media infrastructure is more highly developed in other countries; Korea was often cited (which has the highest penetration of broadband in the world.)

There was a greater understanding of the Sectoral Assistance component of the Fund among key informants. A variety of activities are funded by this component, including professional development for new media professionals; support to national training schools; and, support to Canadian festivals. In general, this component of the Fund was valued, although, as in the case of the Online Distribution component, it was stressed that there was a greater need for international outreach, networking, and connections. As one interviewee put it, *“We are a nation spread across a vast geography, meaning that we are all cut off from each other. The Sectoral Assistance component of the CNMF is essential to bring us together to share ideas, network, and learn from each other.”* It was also suggested that more support services be put into the Sectoral Assistance component. *“Having a booth at E³ is great, but getting there is only half the battle. People need to know what to do when they get there.”*

Telefilm has developed an online survey methodology to measure the impacts of major festivals and markets on participating companies. Results indicate that companies highly value Telefilm’s support to participate in these events and that participation results in positive economic impacts as measured by the value of business deals completed or anticipated.

Summary – Achievement of intermediate and ultimate outcomes: The evaluation study examined a variety of measures pertaining to the CNMF’s achievement of its intermediate and ultimate outcomes. Telefilm does not yet report on the percentage of market research/prototyping projects that reach the production stage or the percentage of production/marketing projects that enter distribution, but is currently developing a proposal for doing so.

Regarding audiences, Telefilm has developed a methodology that aggregates web site traffic across a sample of CNMF-supported web sites.

In terms of consumer interest in CNMF-supported products, it appears that relatively few products generate any revenue from distribution, based on the data in the exploitation reports provided by recipients to Telefilm. This is consistent with the general view that it is difficult to develop a business model for many culturally-oriented new media products.

3.2.3 What have been the unintended impacts and effects resulting from the CNMF?

Three types of unintended impacts and effects emerged from the analysis. One positive unintended impact of the program identified by key informants is that the process of applying for support from the CNMF forced companies to adopt basic business disciplines. Many CNMF companies are start-ups and are “creatively focused” companies. Indeed, the review of a sample of CNMF project files indicated that some recipients had never prepared formal financial statements prior to submitting their CNMF project application. The experience of submitting an application and the supporting documentation, often aided by support from Telefilm regional officers, helped them to think in a more market-oriented, business-centric and disciplined fashion.

An unintended negative impact is a potential “entitlement mentality.” There is a perception that many participants in the traditional media sectors of film and television have become so dependent upon government support that they have shied away from market discipline, and have developed a detrimental entitlement mentality with respect to government support. Some key informants who raised this issue felt that such a mentality had not yet developed in the new media sector, either because the level of funding was low, or because the sector tended to attract more entrepreneurial-minded individuals. However, not all interviewees agreed with this view: some expressed a concern that the creation of an entitlement mindset in the sector was a persistent danger. Some felt that the pool of successful applicants to the fund was a relatively small group of companies, which had become dependent upon the fund. Our interviews with Telefilm representatives indicated that entitlement was a concern, as some companies repeatedly apply to the program and tended to score well during the application review process – since they have gained an in-depth understanding of the program and what the government is expecting to see in an

application. Our file review also identified many companies that had been repeat applicants and recipients.

One way to address the concerns about entitlement and dependency would be to limit access to the fund by companies for a certain period of time, requiring of those applicants medium-term business plans to demonstrate an intention to become self-sufficient within that term, and then precluding those companies from accessing the fund after a certain point in time.

Another unintended impact that emerged pertains to the positive effect of the program on some television producers. As noted earlier, many CNMF projects involve the development of convergent web sites, that is, web sites tied to a television program. Web sites are often critical to the success of a television series, as they help to solidify the relationship with the viewing audience, and thus can increase the viewing audience (and thus advertising revenues) of the television show. An example of a popular convergent web site supported by the CNMF is that for *Degrassi: The Next Generation*. Thus, the program has had financial impacts on the producers and broadcasters of the television programs that receive the benefits from CNMF-supported convergent web sites.

Summary – Unintended impacts: Several unintended impacts and effects were identified. On the positive side, CNMF recipient companies have benefited from the CNMF application process, as it has helped them to sharpen their business skills. A second example of a positive unintended effect is the impact of convergent web sites on audiences for television shows supported by the sites. A potential negative unintended impact is the development of an entitlement mentality: some CNMF recipient companies may not be able to survive without repeated CNMF support.

3.2.4 What are the major internal and external factors influencing the success of the program?

The major internal factors influencing the success of the program pertain to various aspects of the Fund's design, and are covered extensively under evaluation issue #9 below. A major external factor identified as affecting the success of CNMF projects has been the absence of a business model for many cultural new media products. While the program has worked hard to select projects that have the intent of commercial success, the reality is that, to date, few culturally-oriented web sites have made a profit. However, this may be changing, as some of the new media companies interviewed stated that business models are starting to emerge. For example, one segment of the new media industry that may have a greater business potential is the mobile segment. Some recent CNMF recipients are developing interactive games for mobile phones. In one project we reviewed, the customer will be charged a nominal fee, which will be included in the monthly cell phone bill. As this key informant noted, *"The very same person who expects Internet content for free is now paying \$2 to download a ringtone and \$2.50 for a game. The Canadian public will not pay*

to watch a 2 minute video on a computer, but is willing to pay to watch the same video on a mobile device.”

A second external factor is the nature of some of new media projects themselves. Some of the most successful projects, at least measured by website traffic (but not necessarily by financial success, as noted earlier), were often youth-oriented web sites tied to successful television shows. A popular television show provides a ready audience for a supporting website, and a creative web site in turn, can help to build a loyal audience for the television show. However, as noted under evaluation issue #5, the main beneficiaries from these projects may be the broadcasters rather than the new media companies. Some of the new media companies we interviewed had abandoned the convergent website business, due to the absence of a viable business model.

3.3 Cost-Effectiveness/Alternatives

3.3.1 Duplication and overlap with other programs

As described in Section 2, a number of other funding sources are available to new media companies. The main funding source identified by key informants was the Bell Broadcast and New Media Fund (“Bell Fund”), which has a more narrow focus than does the CNMF. It supports convergent websites tied to television shows and is focused on advancing the interests of the broadcasting industry, rather than the new media industry *per se*. The Bell Fund is also a grant, rather than a conditionally-repayable contribution. As with the CNMF, the Bell Fund receives many more applications than it can fund (about 25-30% of applications are funded).

Telefilm estimates that about 40 per cent of CNMF projects also receive funding from the Bell Fund. Given the broader scope of the CNMF, many CNMF projects would not be eligible for support from the Bell Fund.

As noted earlier, several of the new media companies interviewed that were in the business of producing convergent web sites stated that it was impossible, given the financial characteristics of most culturally-oriented new media projects, to successfully develop a product without support from both funds. They did not view the two funds as duplicative; rather, they viewed them as complementary.

The survey of CNMF recipients asked companies if they had accessed any other public or private funding sources over the past four years. The main funding source identified was the Bell Fund, which had been accessed by 33 per cent of recipients – thus supporting the Telefilm estimate. There are a myriad of other small federal and provincial programs as well as private funds, but each was accessed typically by only one or two companies.

The survey of applicants found that only 13 per cent had accessed the Bell Fund, suggesting that if CNMF support was not available, then they are less likely to obtain funding from the Bell Fund.

The industry survey also asked companies if they had used any of the federal and provincial/territorial tax credit programs. Some 51 per cent of recipients had not used any tax credit program. Of those that had, the main tax credit program used was the federal Scientific Research and Experimental Development Tax Credit (SR&ED), used by only 12 per cent of recipients. It is not clear why so few companies had attempted to take advantage of the SR&ED tax credit program. Some of the reasons may include: 1) new media companies tend to be small and may not yet have achieved a profit against which tax credits could be applied; 2) to qualify, a company must have conducted R&D, and a company that is solely devoted to content development may not qualify; 3) lack of awareness; and, 4) the costs involved in applying to a tax credit program, since tax professionals are often required to help companies apply (e.g., to develop record-keeping processes, assess eligibility of the R&D undertaken, complete the forms).

Given many new media companies apply to both the CNMF and Bell Fund, respondents cited the need for better coordination between the two programs, in matters such as application forms, reporting requirements, budget templates, and, especially, deadlines and processing times. For example, several respondents noted that Telefilm had changed the budget template used for CNMF applications without consulting with the Bell Fund, resulting in complaints from applicants. (This issue was later resolved; some noted that Telefilm had worked harder in the recent past to improve coordination with the Bell Fund.) With respect to timing and application processing, it was noted that an applicant applying to both funds would often find that one fund had made a decision to support his project, while the second fund would not render a decision for months. The Bell Fund was identified as moving more quickly compared to Telefilm, although some recipients stated that Telefilm's administrative processes were more straightforward.

Given the overlap between the two funds, an issue that emerged during the study is whether it makes sense for the two programs to continue "as is." All key informants seemed quite content with the status quo, as they did not want to see either of the programs terminated, given the scarcity of funding sources in the sector. The existence of two similar funds also provides applicants with two opportunities to obtain financing for the same project.

Should PCH decide to eliminate the overlap, one option might be for the Canadian Television Fund to provide support to broadcasters and producers to develop convergent web sites. This option would enable the CNMF to exclude website convergent projects. Given the benefits of convergent web sites appear to flow mainly to the broadcaster, this option merits further investigation. In addition, as

discussed earlier, some CNMF recipients have moved away from this business, due to the absence of a business model.

Another area of potential duplication is the support provided by Canadian Heritage via the New Media Sector Development Fund and by the sectoral assistance component of CNMF to professional development activities at new media festivals. Telefilm indicated that at a new media festival held in 2005, both organizations provided support but this was only discovered during the event itself. In our view, it does not make sense for two government organizations to support the same type of activity. Given that Telefilm provides financial support to and participates in many festivals in the feature film, television and new media sectors, an option would be for PCH to delegate all types of festival support activities involving new media companies to Telefilm.

Summary – Duplication and overlap with other programs: There is overlap between the Bell Fund and the CNMF, as both programs support convergent website projects tied to television shows. The new media companies interviewed are content with the status quo.

Our view is that the two programs should not have any overlap. One option might be for the Canadian Television Fund to provide funding support to broadcasters for the development of convergent web sites, which would enable the CNMF to exclude this type of project. PCH and Telefilm may wish to investigate this and other potential options in consultation with the industry and the other funding bodies.

3.4 Design and Delivery

3.4.1 Is Telefilm Canada the most effective vehicle for delivering the CNMF?

Survey respondents were asked whether Telefilm is the most effective vehicle for delivering the CNMF. As shown in Exhibit 14, a majority of CNMF recipients was positive towards Telefilm: 61 per cent stated that Telefilm is the most effective vehicle, while 19 per cent felt that better results could be achieved by another organization. Among applicants, not surprisingly, the level of support dropped somewhat, to 46 per cent, but this level of support was still higher than the level of non-support (31 per cent). The level of support for Telefilm was only 26 per cent among non-applicants, although the support for another organization was only marginally higher (32 per cent), and a substantial percentage (42 per cent) had no opinion.

Exhibit 14

Telefilm's Effectiveness as a Delivery Vehicle for CNMF

"Is Telefilm Canada the most effective delivery organization to deliver the CNMF, or could better results be achieved if some or all of the program was transferred to another private, public and/or not-for-profit organization?"

	Per Cent Agree		
	Recipients	Applicants	Non-Applicants
Telefilm Canada is the most effective delivery vehicle	61.4	46.3	26.2
Better results could be achieved by another organization	19.3	31.3	32.3
Don't know/no response/other	19.3	22.5	41.5
n	57	80	93

Those who stated that Telefilm was not the most effective delivery vehicle were asked why. As shown in Exhibit 15, the main reasons related to Telefilm being perceived as either not fully understanding the new media sector or being too influenced by its work in traditional media (film and television).

Exhibit 15

Reasons for Stating that Telefilm is an Ineffective Delivery Vehicle

“Why do you say that better results could be achieved by another organization?”

Top 2 Responses	Per Cent of Respondents
Recipients	
▪ Telefilm is too influenced by film and television	36.4
▪ Telefilm does not fully understand the industry sector	18.2
n	11
Applicants	
▪ Telefilm does not fully understand the industry sector	44.0
▪ Telefilm is very disorganized	16.0
n	25
Non-applicants	
▪ Telefilm does not fully understand the industry sector	23.8
▪ Telefilm is too influenced by film and television	19.0
n	21

Among key informants, consensus existed that Telefilm is the only logical choice for delivery of the CNMF. The suggestion was that there would be a steep learning curve for another organization to administer the fund, and that Telefilm, because of its expertise in the world of media, is a knowledgeable service provider. Two possible alternate delivery vehicles were the Bell Fund and Industry Canada, but these suggestions arose not in the context of dissatisfaction with Telefilm, but in the context of the benefits of a single stop provider (in the case of Bell), and in the context of focusing the CNMF more tightly on the industrial development goals of the sector (in the case of Industry Canada).

Interviewees were generally positive towards Telefilm and its delivery of the CNMF program. Many interviewees mentioned specific Telefilm officials with whom they have had contact, and spoke favourably of those individuals. One recipient, to emphasize his satisfaction with Telefilm, stated that he had recently written a letter to Telefilm management expressing his satisfaction with Telefilm's service. Overall, there is a perception that Telefilm's staff are dedicated, knowledgeable and hard working, and do a good job with the day-to-day administration of the program. Respondents base this assessment upon the speed with which their telephone calls

and e-mail inquiries receive responses, the willingness of staff to support an applicant's requests, and the quality of advice provided by staff. Based on our interaction with Telefilm regional officers, we would echo these views.

Regarding feedback on specific steps in the delivery process, several recipients commented positively on the "expression of interest" (EOI) step as part of the overall application process for the product assistance component of the CNMF. The EOI permits applicants to submit a short-form application, and then learn from Telefilm if they consider the project a potential candidate for funding. Successful applicants are then directed to submit a full application. The EOI step was introduced due to the high level of demand for the program (and the resulting high rate of rejection). The EOI allows applicants to only assume the burden of completing detailed applications in cases where they may have a realistic expectation of being awarded funding.

Although satisfaction with Telefilm's delivery of services was generally high, numerous suggestions for improvement were offered. First, there was criticism of how decisions are made to fund a particular project over another. For example, one successful applicant to the Fund stated that "the scoring grid and process used to evaluate applications is not transparent." There was also a feeling that Telefilm took too long to process applications, especially as compared to the Bell Fund, and that Telefilm's application process was tied to its own government budget cycle, to the detriment of producers who might seek funding at a time that was not close to the point at which Telefilm made decisions. One recipient stated that the program guidelines are unclear (pertaining particularly to the complex repayment provisions), which he felt dissuaded some companies from applying.

A more common and important theme that emerged from the interviews was the need for Telefilm to connect more firmly with industry. Suggestions included the following:

- Establish a peer review process to assess applications, similar to that used by the Canada Council.
- The creation of an industry roundtable to take general guidance from the industry.
- Conduct of an annual road show to publicize the program, particularly in major cities where Telefilm does not have an office. For example, one key informant located in a western province stated that there were significant new media companies in that region that were unaware of the CNMF. (It should be noted that in February 2006, Telefilm's Executive Director conducted a cross-country client outreach. New media clients were invited to attend these sessions for an overview of the recent changes in the CNMF guidelines. Telefilm regional managers also conducted one-on-one meetings with clients.)

- An annual meeting in which Telefilm would present a “state of the industry/state of the CNMF” report, whereby Telefilm would report on application trends and fund statistics, propose direction for the coming year, and solicit feedback.

Telefilm’s image and visibility was another area that attracted comments. A number of respondents remarked that Telefilm staff seemed overworked, basing this assessment upon the view that staff was not as visible at industry events as respondents would have liked, leading respondents to conclude that limited time was the reason. Another aspect of visibility related to Telefilm branding. More than one interviewee commented on the very name of the organization, remarking that “Telefilm” is an amalgamation of two traditional media lines. They noted that consumers are watching content via many platforms other than television, and that film is disappearing as digital formats replace it. The suggestion was that Telefilm needs to rebrand itself if it wishes to be seen and perceived as truly supportive of all media, including new media. This appears to be more than just an image and branding issue, though. It was remarked that Telefilm’s traditional media origins are a double-edged sword: on the one hand, having staff familiar with the world of media was an advantage. On the other hand, though, it was felt that the organization was more familiar with traditional media than new media. This corresponds to the results of the industry survey reported above.

Another issue that arose was the administrative burdens on Telefilm. Reporting requirements to PCH are perceived to be onerous by Telefilm, which is of the view that requirements for reporting on this relatively small fund exceed the types of reports provided by Telefilm to its own Board. The onerous level of reporting leads to increased administrative costs for the program, which could otherwise be devoted to funding projects. It would be beneficial to review reporting requirements, and revamp Telefilm’s reporting obligations to be (a) more outcome-oriented towards the results and impact of the funding (though outcome measurement itself is an area that requires further consideration), and (b) practically oriented, such that reports filed by Telefilm contain information that is clearly needed either for action by PCH, or for PCH to confirm that Telefilm is performing adequately as an administrator of the CNMF.

It should be noted that a PCH audit of Telefilm conducted in September 2004 identified no major issues with Telefilm’s delivery of the CNMF program.³³

Finally, Telefilm has recently implemented a client satisfaction measurement process. Pollara Research Inc. was engaged to undertake a client satisfaction survey in January 2006. This project consisted of two parts. First, they contacted key partners and stakeholders and completed 25 one-on-one interviews. The resulting qualitative report provided the foundation for proceeding with a systematic client

³³ Corporate Review Branch, Canadian Heritage. *Report on the Single Recipient Audit of Telefilm Canada*, Draft Report, September 24, 2004.

satisfaction survey. A second, larger telephone survey was conducted in the spring of 2006 and included some 1,000 Telefilm clients, past and present. A total of 520 companies responded, of which over one-third reported working within the new media industry. Some of the survey highlights were as follows:

- New media clients were somewhat more satisfied with Telefilm's performance as an organization compared to clients in the film and television sectors.
- Respondents in the new media sector were more likely to believe that Telefilm is delivering on its promises compared to those in the other two sectors.
- Respondents in the new media sector were more satisfied with deadlines than those in the other two sectors, both in terms of their clarity and ease of understanding and their appropriateness for their sector.

Summary – Telefilm's effectiveness as a delivery vehicle: The evidence indicates that Telefilm is the logical organization to continue to deliver the CNMF. Telefilm administers other programs in the traditional media sectors. Feedback on Telefilm's service delivery was generally positive, which is supported by Telefilm's own client satisfaction survey. Numerous improvement suggestions were provided, the main one being that Telefilm needs to better connect with the industry.

3.4.2 To what extent do design and delivery aspects of the program contribute to the achievement of desired results?

Several CNMF design and delivery issues were identified by the evaluation that may be affecting the overall success of the program.

3.4.2.1 Overall awareness of the CNMF

The survey of non-applicants asked about their level of awareness of the CNMF. The results are shown in Exhibit 16. Overall, some 62 per cent of respondents had either little or no knowledge of the CNMF.

Exhibit 16

Level of Awareness of the CNMF Among Non-Applicants

"In general, would you say you know a great deal about the CNMF?"
(n=93)

Per Cent of Respondents				
A great deal	Some	Only a little	Nothing at all	Total
7.5	30.1	32.3	30.1	100%

3.4.2.2 Suggested improvements to the CNMF

Surveyed companies were also asked to identify the “one thing” that could be improved with the CNMF. The most popular suggestions are shown in Exhibit 17. The main suggestion among recipients and applicants was to increase the level of funding of the program; in fact, close to one-half of applicants (47 per cent) made this recommendation. This suggestion included both the overall size of the program as well as the size of the funding cap. As one respondent stated, *“there is a big difference in the scale of new media projects, but they are all treated the same. The funding required for an online project is much smaller than for a video game product. It would be helpful to have a clearer definition of the various types of new media projects and the funding each requires.”*

Among non-applicants, however, the main suggestion (39 per cent of respondents) was to increase the level of awareness of the program. Increasing the level of program funding was the second-ranked suggestion among the non-applicant group.

The third-ranked factor for recipients and applicants was to broaden the scope of the program. For example, one company recommended “a broader distribution of the funds among firms, allocating a percentage to leading-edge applications.”

Key informants also stated that the level of support provided by the government to the new media sector was disproportionately low, both in absolute dollar terms and relative to the support provided to the traditional film and television sectors. Interviewees frequently recognized the impressive and considerable support provided by the federal and provincial governments to the cultural sector in Canada in general, and to the audiovisual sector in particular. They noted that Canadian Heritage and other organizations such as Telefilm Canada, the Canadian Television Fund Corporation and the Canada Revenue Agency provide more than \$800 million yearly to cultural industries in the form of investments, grants, contributions, and tax credits. They noted that the annual budget of the CNMF was miniscule in comparison. These relative funding levels led respondents to conclude that the federal government is not adequately supporting the new media sector.

Exhibit 17

Suggested Improvements to the CNMF

“In your opinion, what is the most important thing that could be improved with the Canada New Media Fund?”

Top 6 Improvement Suggestions	Per Cent of Respondents		
	Recipients	Applicants	Non-Applicants
Increase the level of funding/financing ability	47.4	28.8	14.0
Improve communications/more awareness of the Fund	12.3	13.8	38.8
Broaden program scope	15.8	11.3	5.4
Fewer restrictions/improve eligibility criteria	5.3	8.8	4.3
Simplify application process/less paperwork	5.3	6.3	4.3
Better definition/better understanding of the program	5.3	6.3	3.2
n	57	80	93

3.4.2.3 The design of the Product Assistance component

The industry survey asked all companies for their views on three design aspects of the Product Assistance component: 1) the eligibility criteria; 2) the use of conditionally-repayable advances; and 3) the maximum level of participation by Telefilm on a particular project. The results are shown in Exhibit 18. Overall, CNMF recipients are supportive of the current structure of the program – but not overwhelmingly so. For example, 67 per cent of recipients indicated that the eligibility criteria are appropriate and 68 per cent agreed with the concept of conditionally-repayable advances. A slightly lower percentage, 58 per cent, agreed with Telefilm’s level of participation on projects. These results indicate that roughly 35 - 40 per cent of CNMF companies disagreed with some aspect of the overall design of the Fund.

The results for applicants were fairly similar to recipients, although the level of support for the eligibility criteria dropped to 53 per cent (compared to 67 per cent for recipients).

Among non-applicants, only 41 per cent agreed with the Fund’s eligibility criteria.

Exhibit 18

Views on the Structure of the Product Assistance Component

"I would like to ask you if you agree or disagree with various statements about the structure of the CNMF."

	Per Cent Agree (strongly agree + agree)		
	Recipients	Applicants	Non-Applicants
The eligibility criteria for Product Assistance financing are appropriate	66.6	52.9	40.5
Conditionally-repayable advances is a good approach to funding the CNMF's Product Assistance Component	68.4	72.1	78.4
The maximum level of participation by Telefilm on a particular project is appropriate	57.9	57.4	NA
n	57	68	37

Our interviews with key informants provided an opportunity to discuss several specific design issues, and this topic received considerable feedback. These issues relate to specific aspects of the conditions under which the CNMF grants funding (detailed in the CNMF Program Guidelines). The main issues were the following:

- The cap on producer's fees.
- The percentage of a project's budget funded by the program and the size of the funding caps.
- The emphasis on small companies.
- Intellectual property ownership.
- Recoupment terms and process.

Cap on producer's fees: The cap on producer's fees is currently set at 10 per cent, with an additional 10 per cent allowed for overhead. In all types of media production, the producer is, in essence, the project business manager – the person who assembles the elements necessary for a project to work, and ensures that schedules, budgets, and the overall project moves according to schedule. Several CNMF recipients stated that, especially given the relatively small size of CNMF project budgets, the cap for producer's fees alone should be raised to 25 per cent or 30 per cent, as the current level was not sufficient to

compensate or encourage producers to take on projects. While a similar percentage is applicable to producers accessing funding under the Canadian Feature Film Fund, budgets for feature films tend to be higher than those of small new media undertakings. The Canadian Television Fund allows producers to recoup 20 per cent in fees and overhead of production and post production costs (i.e., sections B and C of the production budget), and that percentage may be increased to 30 per cent for low budget productions (defined as projects with budgets of less than \$500,000). Thus, a few CNMF recipients stated that they could not “cover their producer’s expenses” or “earn an appropriate fee” under the current producer fee cap.

Percentage of the project’s budget funded by the program: Some key informants recommended that the overall percentage of a project’s budget funded by the CNMF should be increased. At present, participation by the CNMF is generally limited to 50 per cent of the project’s budget, to a maximum of \$550,000 for market research/prototyping, product development, and marketing support. As one fund recipient put it, “*there is no private risk capital available for these kinds of projects, and so the CNMF should, either on its own or in combination with the Bell Fund, fund 100 per cent of a project.*” As for other areas of the program’s design, this subject merits closer scrutiny, both on its own, as well as with respect to funding percentages for culturally-oriented vs. commercially oriented projects.

For more commercially-oriented projects, an increase in the percentage funded by the program would reduce a producer’s need to find partial funding from other sources, would serve to insulate producers from the marketplace, and would not push new media companies towards self sufficiency and competitiveness, which is a goal of the CNMF.³⁴ But for more culturally-oriented projects, increasing the percentage of a project’s budget accounted for by the Fund may make sense, as most of these projects are unlikely to lead to profitable products, and producers will be unable to find risk capital in the marketplace.

Telefilm, however, felt differently on both of these points (producer’s fees and percentage contribution), maintaining that the fund is intended to compliment other sources of funds, and that increasing permissible producers’ fees to a more comfortable level would serve as a disincentive for producers to invest their own equity, seek other sources of funding, or recoup through the market.

Size of funding caps: Many interviewees, including Telefilm officials, recommended that the funding caps be increased, so that larger projects

³⁴ As set forth in the program’s terms and conditions, one of the program goals is to “Assist in the growth and development of a Canadian multimedia production and distribution industry that is competitive in national and international markets.”

undertaken by more sizeable companies could be supported, which, in turn, would increase the likelihood of increasing audiences for new media products. Increasing the size of funding caps was also frequently mentioned in the industry survey, as noted above.

The emphasis on small companies: The program guidelines state that 75 per cent of funds are reserved for small companies (SMEs). It was remarked that at present, fund guidelines do not discriminate between large and small companies, and companies of different sizes have different needs, capabilities and types of projects. As indicated earlier, confusion exists over the goals of the program. If the program's main goal is to support culture and build audiences for cultural products, then informants indicated that company size should not be a factor in decision-making.

On the other hand, if the goal is to jump-start emerging companies, then the focus should obviously be on these smaller companies but a certain proportion of these projects will never come to fruition and of those that do, few products are likely to achieve huge audience numbers. This raises the question of the appropriate public policy instrument for helping small companies. We noted that some of the promising smaller recipients had received support from the National Research Council's Industrial Research Assistance Program (IRAP) to develop an underlying technology, and we noted the importance of this program to the development of their companies.

Intellectual property ownership: The question of intellectual property ownership resulted in comments that reflected the pros and cons of current policy, which requires the recipient to own 100 per cent of the copyright in its new media product. On the positive side, fund recipients noted that having Telefilm's support for retention of copyright gave small companies important leverage when seeking distribution or publishing contracts with larger companies, and allowed recipient companies to build libraries of copyrights to serve as an asset base. On the other hand, the view was expressed that ownership of copyright was less important than getting compensated for those rights, and if transferral or sale of rights represented a lucrative opportunity, fund recipients should be permitted to sell the rights. Telefilm believes that in situations where a company does sell its ownership position in a project, then the company should be required to immediately repay the CNMF investment.

Recoupment policy and process: An important issue raised by a couple of CNMF recipients was the CNMF's repayment (often called "recoupment") terms. They strongly argued that the repayment provisions of the Fund are onerous, and actually may serve as a disincentive to taking market research/prototype projects to production and then to market, since the terms are less favourable than what would generally be available on the open market (at least for commercial-type projects). Because the topic of repayment was

raised as a concern, we examined the repayment process as part of the review of project files.

Under current policies, the way the repayment terms generally work is as follows. For market research/prototyping projects, contributions are to be repaid upon commencement of the next stage of product development. To offset companies' cash-flow difficulties, in 2004-05 Telefilm modified this requirement. Repayment may be deferred to the point at which a company is receiving revenues from the exploitation of the product. (We noted that Telefilm has been sensitive to the cash-strapped situation of CNMF companies and has made modifications to the program such as this one over time.) Telefilm also indicated that the costs of the market research/prototyping phase may, in certain cases, be rolled into the budget for the next phase of production assistance.

The repayment terms for product development/marketing projects are more complicated. (The complete details are contained in Telefilm's CNMF program guidelines). Telefilm's contribution to a project's budget is considered to be a repayable advance – once the resulting product reaches the “exploitation” or distribution stage. For an online product (e.g., downloadable game, interactive web site or wireless product), the standard contract specifies that Telefilm will receive a percentage of gross revenues resulting from exploitation of the product, equal to 50 per cent of its percentage in the total financing of a project. For projects involving a third party distributor, the percentage increases to 100 per cent.

There is also an additional profit participation clause. After complete repayment of Telefilm's advance, Telefilm is to receive a percentage of gross revenues equal to 25 per cent of its percentage in the total financing of the project, to a maximum of 20 per cent of the amount financed by Telefilm.

To take an example, one CNMF project file we reviewed pertained to a downloadable action game with a Canadian story. The project was funded in mid-2004. The company had lined up a third-party game distributor. Telefilm provided a production/marketing advance of \$324 thousand. Under the CNMF contract with the company, the recipient would be required to re-pay this advance of \$324 thousand, plus 12 per cent of any distribution revenues that occur. In the case of this particular project, Telefilm had received no recoupment revenues to date, although we noted that the product was on the market. The reasons for this are not clear; it may be a timing issue, i.e., revenues may have indeed occurred but had not yet been included in the company's sales (“exploitation”) report to Telefilm.

A related concern is Telefilm's ability to confirm what happens to a particular CNMF project once the final payment instalment is made under the program.

Telefilm's regional officers are intimately involved with each CNMF project from the application stage until project completion (defined as the final payment stage). The recoupment process is handled centrally by a department in Telefilm's head office in Montreal. (This department handles recoupment for all Telefilm programs in the television and film sectors.) This department has developed a standardized reporting process for recipient companies, whereby each recipient is required under its contract to complete and remit an exploitation report semi-annually for a three-year period. They are required to state the gross sales of the product, among other details. To facilitate a response, Telefilm sends out a reminder letter to each company in advance of each reporting deadline, with a list of the company's CNMF projects (some companies may have many projects over the course of a few years). Any company that does not report is automatically placed in default and are ineligible to receive any further funding support.

Two concerns arose with the repayment process. First, we identified a few projects where the product had appeared to enter the distribution/exploitation stage, yet the company had not repaid any amounts to Telefilm. One such project was described above. A second project was a highly successful (as measured by the huge number of monthly site visits) convergent web site tied to a television show. When we raised this apparent discrepancy with a Telefilm regional officer, the individual shared the concern, and indicated that there were likely other projects where the same situation had occurred. Our sample of project files is too small to arrive at any definitive conclusions. A financial audit of CNMF projects would be required to determine the extent to which companies are not reporting sales data to Telefilm. Telefilm indicated that as part of its three-year corporate audit plan, an audit of CNMF projects will be undertaken in 2006-07. In addition to auditing production costs, Telefilm indicated it will also audit revenues in some exploitation reports.

The issue of tracking down repayment is particularly challenging for those market research/prototyping projects that progress to the production phase but do not receive CNMF funding support for this phase. Some of these projects may actually enter into production, as the company obtains financing from other (non-CNMF) sources. Telefilm does not attempt to confirm what happens to these projects (Telefilm also stated that it is currently investigating options for doing so). The project officer may, however, find out through normal business intelligence or when the same company decides to re-apply for a new and unrelated project some time later. An issue, then, is that little outcome information is available for these projects (e.g., the percentage of market research/prototyping projects that eventually get produced and reach the market). The subject of performance measurement is discussed further under evaluation issue #10.

The second related issue is that because the repayment terms may be perceived as onerous, some companies may be reluctant to take a market research/prototyping project to the production stage, or to take a production project to the distribution stage. For market research/prototyping projects, Telefilm has attempted to address this challenge, and may permit the company to include its market research/prototyping costs in its production budget. For production projects, again, the issue is that most new media projects are risky, and a company may be reluctant to enter into a distribution agreement, since the repayment provision will kick in, and the company could be on the hook to Telefilm for a substantial repayment amount (assuming the project has revenues from distribution).

A variation on this issue was also identified. One company had entered into a prototyping project to develop a console game, which was intended for a particular type of game console (each game console requires different software programming, so this decision is made early on). The prototyping project was completed, yet the company did not approach CNMF for the next phase of production. Sometime later, the company applied to CNMF for a new project, and Telefilm discovered that the previous project had, in fact, gone into production and the product was on the market, but with a different console game distributor. The company argued that the repayment terms in the contract did not apply, since the game was developed for a different game console from the one listed in the contract. At the time of our file review, Telefilm's legal counsel was being consulted to determine whether legal action was warranted. Again, this may be a one-off case, but it does support a view that the CNMF repayment terms may be counter-productive in some cases, as they may be perceived as onerous, complex, and a disincentive to producing projects that would otherwise have merit.

As noted below, we believe that Telefilm should include in its reports to PCH the status of repayments by CNMF recipients (for projects for which repayment is a condition of support), as well as summary information on the status of the projects which have received funding.

Summary – Design of the CNMF. Certain parameters should be examined, including i) the size of the cap on producer fees; ii) increasing the percentage of a project's budget funded by the program, particularly for culturally-oriented projects; iii) increasing the size of project budgets and permitting larger companies to participate; and iv) assessing intellectual property ownership rules. The repayment terms and process followed by Telefilm need to be reviewed. The Online Distribution component of the program also needs to be revamped. The Sectoral Assistance component was viewed as important to the industry.

3.4.3 Has the CNMF implemented an ongoing performance measurement strategy?

A review of PCH files indicated that work has been carried out over the years to develop a performance measurement framework for the CNMF. The PCH contribution agreement with Telefilm includes a section on reporting requirements.³⁵ Telefilm is required to prepare and submit an annual report that details the CNMF “objectives, key results and performance indicators consistent with the Results-based Management and Accountability Framework (RMAF) for the Canadian Internet Cultural Content Strategy.” A list of indicators is included in the appendix to the agreement. Curiously, this annual report is not made public by either Telefilm or PCH (note that key informants stated that insufficient information is provided by Telefilm on the activities and results of CNMF projects). Telefilm does prepare an annual report for the corporation (in accordance with the requirements under the government’s *Financial Administration Act*), which includes some information on the CNMF.

The list of required performance indicators in the contribution agreement is lengthy and includes a mix of input, output, reach, and outcome indicators. The list is reproduced in Exhibit 19.

A review of Telefilm’s CNMF annual report for 2004-05 indicates that information is provided on many of the indicators in Exhibit 19, particularly for the input/output/reach indicators, as the required information can be extracted from Telefilm’s financial and operational databases.

Outcome indicators are usually more challenging for any program, as they require undertaking data collection activities. A good example is collecting audience numbers for CNMF products that are web sites. Telefilm has been working for some time with an Internet research firm to develop an appropriate methodology, and data from a pilot test of a new methodology were expected in May 2006.

A test of the usefulness of a performance measurement system is whether a small set of key indicators has been developed and applied. To put it simply, the goal should be as follows: anyone familiar with a government program should be able to readily answer the following question in a few sentences “is the program successful...and why or why not?”

An excellent example that has been well documented in the press is the Canadian Feature Film Policy. Virtually everyone who has a passing interest in the Canadian feature film scene would know that Canadian English-language feature film have mediocre box office numbers, whereas French language films do very well in the

³⁵ Department of Canadian Heritage, “Amendment to the Contribution Agreement between the Department of Canadian Heritage and Telefilm Canada respecting the Canada New Media Fund,” Appendix A, 2004.

Quebec market. And the policy established a box office target at the start, so that progress could be tracked.

In the case of the CNMF, there is more work to be done. As reported earlier, many key informants are unsure of what the real objective of CNMF is.

We would argue that the success of the CNMF program could be measured using a handful of strategic indicators (some of which are included in Exhibit 19):

- The percentage of market research/prototyping projects that reach the production stage (either with or without further CNMF product development support) – Note that this indicator is listed as #10 in Exhibit 19, but CNMF's annual report does not report on it. The program should also establish a target for this measure and report on it, e.g., "we expect 50 per cent of market research/prototyping projects to reach the production stage, and last year the actual was 62 per cent."
- The percentage of product development projects that reach the distribution stage (i.e., they reach the market) – This indicator is not currently measured.
- The percentage of CNMF projects that meet their technical and marketing objectives – Other government contribution programs require the recipient to submit an end-of-project report that includes quantitative ratings on a set of measures. Note that Telefilm's contract calls for an end-of-project report, so this measure could be included in the future. Another approach is for a peer review panel to do the assessment – this addresses concerns with objectivity with the previous measure, but is more expensive.
- Level of demand for CNMF products – Measure #9 in the table corresponds to this indicator. A challenge for CNMF is that many different types of products are supported: interactive web sites, products downloaded from web sites, offline CDs, games on cell phones, etc. As noted above, Telefilm is focusing on measuring web site traffic. One way to smooth out the differences is to report on the number of projects that meet their forecast demand levels, such as "X per cent of projects funded came within 10 per cent of the target demand as forecasted in their business plan."
- Financial success of CNMF projects – A proxy measure that exists is the annual exploitation revenues received by Telefilm, as companies are required to submit annual exploitation reports for a three-year period. Telefilm collects this information and reports totals in its annual report. It might be useful to provide more detailed information, such as the actual gross revenues of CNMF-supported products, as well as the percentage of projects that generate any revenue.

- Impacts of CNMF projects on the financial success of companies – Applying this measure could involve conducting a set of annual case studies of a sample of successful projects. The focus would be to determine how the project contributed to the overall commercial success of the company. The case study results could also be featured on the program’s web site. (This would also help address the concern of key informants that the program is not well known.)
- Level of client satisfaction with Telefilm’s service delivery – This could be easily addressed via an end-of-project web-based survey to all recipients.

Exhibit 19

CNMF Performance Indicators

Input Indicators <ol style="list-style-type: none"> 1. Canada New Media Fund contribution, in total and by Fund component 2. Total administration costs 3. Project funds provided by sources other than the Canada New Media Fund, by components 4. Revenues from repayment of contributions, in total and by component
Output Indicators <ol style="list-style-type: none"> 5. Number and types of projects funded, in total and by component. Types include target audience, platform, genre, language and originating province of the final product 6. Rejection rate by component and province, calculated by both the number of eligible applications and the number of total applications
Reach Indicators <ol style="list-style-type: none"> 7. Number of clients, in total and by component 8. Profile of clients (size and region), by component
Outcome Indicators <ol style="list-style-type: none"> 9. Audience numbers, as shown by # unit sales of products, # unique visitors to websites, or other statistics as relevant to the development of new platforms such as length of visit, # repeat visits, # page views 10. Ratio of successful market research/prototyping to successful product development
Sectoral Assistance <ol style="list-style-type: none"> 11. Level of participation in new media fairs and shows, as indicated by number of participants sharing Telefilm’s umbrella 12. Business development of clients participating in new media trade fairs and shows

Source: 2004-05 Contribution Agreement between PCH and Telefilm.

Summary – Performance measurement. A set of performance indicators for the CNMF is specified in the contribution agreement between Telefilm and PCH. Telefilm submits an annual report to PCH, which contains detailed information on how the money has been spent. This report is not published. Limited performance information on the outcomes/success of the program has been available in the past; Telefilm is making good progress in gathering and analyzing traffic data for CNMF-supported web sites. The main gap in the performance measurement framework is reporting on the extent to which CNMF projects lead to successful products in the marketplace.

4 Conclusions, Recommendations and Management Response

4.1 Conclusions

The main conclusions of the Evaluation of the Canada New Media Fund on the three issues of rationale, success and design and delivery are as follows.

4.1.1 Rationale

The essence of the rationale for government intervention in the new media sector was to ensure that there would be a Canadian presence on the Internet, ensuring access to Canadian culture in this emerging global space. A secondary aspect of the rationale was to support the development of a Canadian new media industry (in order to produce the required cultural content).

The evidence is mixed on whether the government needs to continue to support the production of cultural new media content, and further research by the Department of Canadian Heritage on this subject is warranted. Public opinion surveys indicate that Canadians are unsure regarding whether there is sufficient Canadian content on the Internet, but are supportive of the efforts of governments to fund the development of such content. Canadians are generally satisfied with the cultural information they find on the Internet. On the other hand, key informants expressed a high level of concern regarding the perceived growing U.S. domination of the Internet, and believe that Canadian new media companies need to be supported to address this lack of Canadian content.

On balance, the evidence indicates that the federal government should continue to support the new media sector, not only to ensure Canada reaps the economic rewards from an increasingly important sector, but to ensure Canadian-based companies, products and technologies will be an important part of the Internet and other formats, such as cell phones and MP3 players.

4.1.2 Success

The Canada New Media Fund was launched in 2001. For the new media sector, the past several years have been a time of unprecedented turmoil, innovation, and change. Major stock market indices peaked in March 2000, before commencing a decline of 40 per cent over the balance of the year – a decline which continued

through 2001, and into the latter months of 2002. The resulting contraction of the sector led to a rash of bankruptcies, massive layoffs throughout the industry and losses for investors – events captured by the phrase “dot-com bust.”

Since the bursting of the bubble, companies in Canada’s new media sector have consistently stated that raising capital is a major hurdle to success – a view that once again was confirmed by the present evaluation study. By providing financial assistance to companies in this sector, the CNMF has been one constant in a rapidly shifting environment. Companies that have benefited from CNMF support over the past several years emphasized that the funding received has been important to the success of their companies and to the sector as a whole. Most of the projects financed by the CNMF would not have been undertaken in the absence of the program.

The evaluation study examined a variety of measures pertaining to the CNMF’s achievement of its intermediate and ultimate outcomes. Telefilm does not yet report on the percentage of market research/prototyping projects that reach the production stage or the percentage of production/marketing projects that enter distribution, but is currently developing a proposal for doing so.

Regarding audiences, Telefilm has developed a methodology that aggregates web site traffic across a sample of CNMF-supported web sites. Preliminary results indicate that convergent web sites supporting youth-oriented television shows tend to draw substantial audiences.

In terms of commercial success of CNMF-supported products, it appears that relatively few products generate any revenue from distribution, based on the data in the exploitation reports submitted by recipients to Telefilm. This is consistent with the general view that it is difficult to develop a business model for many culturally-oriented new media products. This may change as the sector continues to evolve; for example, mobile applications may have more commercial potential, as consumers appear to be more willing to pay for content received on their cell phones and other newer platforms.

4.1.3 Cost-Effectiveness/Alternatives

A number of other funding sources are available to new media companies. The main funding source is the Bell Broadcast and New Media Fund (“Bell Fund”). It has a more narrow focus than does the CNMF, as it supports convergent websites tied to television shows. The Bell Fund is also a grant, rather than a conditionally-repayable contribution.

There is some overlap between the Bell Fund and the CNMF, as both programs support convergent website projects tied to television shows. The new media companies interviewed are content with the status quo, due to the scarcity of funding in the sector, and recommend that the two programs should continue to harmonize

their eligibility criteria and application process. Our view is that the two programs should not overlap. An option might be for the Canadian Television Fund to provide funding support to broadcasters for the development of convergent web sites, which would enable the CNMF to exclude this type of project. PCH may wish to investigate this further and other potential options.

The evidence indicates that Telefilm is the logical organization to continue to deliver the CNMF. Telefilm administers other programs in the traditional media sectors. Feedback on Telefilm's service delivery was generally positive, which was confirmed by Telefilm's own client satisfaction survey conducted in early 2006. Numerous improvement suggestions were provided, the main one being that Telefilm needs to better connect with the industry.

4.1.4 Design and Delivery

The CNMF is in need of substantial transformation in order to address several design issues – a transformation that should not be unexpected given the growth, collapse, and rebirth of the sector over the past five years.

Several issues pertaining to the Product Assistance component of the CNMF were identified. The evidence suggests that should the Department decide to continue with the CNMF, certain parameters should be examined, including i) the size of the cap on producer fees; ii) increasing the percentage of a project's budget funded by the program (for culturally-oriented projects); iii) increasing the size of project budgets and permitting larger companies to participate; and iv) assessing intellectual property ownership rules. The repayment terms and process followed by Telefilm also need to be reviewed.

The Online Distribution component of the program is not well understood in the industry and needs to be better publicized. The Sectoral Assistance component is valued.

4.2 Recommendations and Management Response

1. The Department should re-design the Canada New Media Fund

The Department in co-operation with Telefilm should consult with industry in order to re-design the Canada New Media Fund. The process should consider designing a new program that would take a portfolio approach.

One stream of funding could be devoted to high quality, cultural new media products that have the potential to reach sizeable audiences. This funding would be in the form of a conditionally-repayable contribution – given most of these projects would

have limited commercial potential. The percentage of a project's costs covered by the program could also increase from 50 per cent to, say, 75 per cent.

A second stream of funding could target projects that have more commercial potential. An assessment is required to determine whether a conditionally-repayable contribution continues to be the appropriate mechanism, and, if so, whether the repayment terms need to be modified. For example, the repayment terms could be based on future revenues and set at a level to not deter companies from applying to the program. The current funding caps could be substantially increased and no restrictions might be placed on the size of applicant companies. Intellectual property ownership rules could be re-examined in order to ensure they do not deter companies from participating. Recipients could be limited to the number of projects funded over time in order to prevent an "entitlement mentality" from occurring.

The Department should also establish clear objectives and measurement indicators for the re-designed program, including establishing performance targets.

Management response: Accepted

While the Canadian Culture Online (CCO) strategy received Government approval in 2005, the CNMF was not included as part of that request, pending the completion of this summative evaluation study. The Department is in the process of re-designing the Terms and Conditions of the Canada New Media Fund in consultation with Telefilm Canada with the aid of information gathered through the summative evaluation process. The Department will consult with key industry leaders on the proposed changes as part of the program renewal process.

Implementation schedule: by March 2007

2. The Department should launch an extensive consultation process to develop an industrial strategy for Canada's new media sector

Some of the possible elements of an industrial strategy that emerged from the evaluation study and which could be examined further are the following:

- **Creating co-production treaties or similar mechanisms to encourage co-ventures** – Under co-production treaties, the benefits awarded to national projects are accorded to third party nationals meeting certain conditions. Given the international aspect of the Internet, new media projects would present interesting, ground-breaking opportunities for cross-border collaboration. And, as other countries are formulating policies in this sector, this is a good time to explore such arrangements.
- **Tax credits** – Tax credits are available for other segments of the audio-visual industry and several key informants argued that they should be extended to new media producers. These might take the form of a labour

credit or a credit for capital investments in technology required to develop cutting-edge applications. Some reservations were also noted, including the high cost of tax credits. A preliminary step in this direction would be to assess the cost and effectiveness of provincial sector-specific credit programs, such as the Ontario Interactive Digital Media Tax Credit.

- **Creating an Internet portal to showcase the work being done by Canadian companies as a result of CNMF-type government support** – A type of “Telefilm channel” on the web showcasing funded programming/projects and new works. While interviewees were aware of the “culture.ca” web site, they felt that a more “commercially” oriented portal was needed, with increased marketing support, and tighter links to other highly trafficked web sites.
- **A focused approach to sectoral assistance** – Including support to targeted companies to not only attend important international markets, such as E³, but to take full advantage of such venues by providing introductions to key market players.³⁶ Immersion programs would be developed, which would bring together producers and buyers in an intensive multi-day forum; such programs have been successfully conducted by Telefilm in the film sector.
- **Support for research and development** – By having the National Research Council’s Industrial Research Assistance Program (IRAP) devote a portion of its budget to the new media sector.

Management response: Accepted

The Canada New Media Fund is part of the CCO strategy and as such, approximately half of its funds are scheduled to sunset March 31, 2010. Prior to that date, a broad review of the strategy will be undertaken. A more extensive consultation with the new media industry will be important in this broader analysis. The consultation would be planned for the period following an approval of a revised Canada New Media Fund. The consultation will include issues related to the Canada New Media Fund but will also discuss broader issues than the Fund which were raised through the summative evaluation process and separately by the industry.

Implementation schedule: fiscal year 2007-08

³⁶ The E³ trade show announced in early August, 2006, that it would be scaling back the show. As details emerge in coming months, the appropriateness of E³ as a venue for Canadian participation will have to be reassessed.

3. A re-designed CNMF should be administered by Telefilm Canada, and several delivery enhancements should be implemented

A re-designed CNMF would be delivered by Telefilm. Several changes should be made to how the program is delivered. For example, applications would be peer reviewed. An increased emphasis would be placed on post-project reporting by companies, so that the results of funded projects could be tracked. Telefilm's reporting to PCH would focus on results (see also recommendation #5). Telefilm would develop an ongoing industry consultation process to ensure that whatever program emerges continues to be responsive to the needs of the industry. Successful projects would be profiled on the program's web site.

Management response: Accepted

The Department has a longstanding partnership with Telefilm Canada. In the Office of the Auditor General's November 2005 report, they found that Telefilm Canada was the logical delivery partner for many of the cultural sector's programs, including the Canada New Media Fund. The summative evaluation also reflects that stakeholders felt that Telefilm Canada is an effective administering body for the funds, given its recognized expertise.

A good deal of work has been done in the past year to improve Telefilm Canada's ability to track and report on results. The Department will continue to work with Telefilm Canada on this issue, and other delivery enhancements identified in the summative evaluation, throughout the renewal period. Resultant modifications will be reflected in future contribution agreements with Telefilm Canada.

Implementation schedule: by March 2007

4. As soon as practical, the Department should require Telefilm to prepare and submit a report that examines compliance of CNMF recipients with contract repayment provisions

Telefilm should provide a report to PCH covering all CNMF product assistance contracts between 2001-02 and 2005-06 in order to assess compliance with contract terms pertaining to repayment and project reporting. In the future, such information should be contained in Telefilm's regular reports, and covered as part of the regular audit process.

Management response: Accepted

One element of the framework for the renewal of the Canada New Media Fund is the clarification of Telefilm Canada's strategy for recoupments. As part of this process, the Department will require Telefilm Canada to provide a report on the compliance of recipients with repayment provisions and project reporting requirements. The Department will also require Telefilm Canada to provide regular reports on product

assistance contracts through the next contribution agreement under the new Terms and Conditions of the Fund.

Implementation schedule: by March 2007

5. The performance measurement framework for the re-designed CNMF should focus on a set of strategic indicators

A performance measurement framework should be prepared to monitor and report on the success of the re-designed Canada New Media Fund. The annual report prepared by Telefilm should provide information on a set of strategic performance indicators, focused on assessing the overall success of the Fund. Several possible indicators are presented in this report. The annual performance report should also be published and discussed with industry, as part of a “state of the industry/state of the program” report. The additional costs of performance measurement should be reflected in Telefilm’s contribution agreement with the Department.

Management response: Accepted

In developing a new integrated Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the Canada New Media Fund, the Department will focus on ensuring that new strategic indicators will be strongly supported by the measurement of outcomes that contribute to the strategic objectives of the Cultural Affairs Sector as well as those of the Department.

Implementation schedule: by March 2007

6. The Department should commission a study of Canadians’ usage of Canadian and American content on the Internet

This study would examine actual Internet usage patterns of Canadians, particularly Canadian youth. To what extent are Canadians accessing Canadian versus American content, including portals? What are the trends and implications? The study would design an appropriate data collection methodology, e.g., similar to the metered approach used for television viewing habits. Key metrics would be tracked over time.

Management response: Accepted in principle

The Department is interested in Canadians’ use of Canadian and international cultural content. While commercial products exist that allow for the tracking of Canadians’ use of the Internet in general, cultural content represents such a small proportion of overall Internet content that the kinds of approaches proposed would not be appropriate.

The Department is studying Canadians' use of cultural content on the Internet through a number of statistical surveys. In particular the Canadian Internet Project, a bi-annual study which is part of the World Internet Project, allows the Canadian results to be compared to those of 10 other countries.

Implementation schedule: Ongoing

Appendix A – List of Key Informant Organizations

List of Key Informant Organizations

Stakeholder Type	Organization	Location
Federal Government		
	Department of Canadian Heritage: <ul style="list-style-type: none"> ▪ Jean-Pierre Blais, ADM, Cultural Affairs ▪ Ruth Bacon, Director, Content, Policy and Programs, Canadian Culture Online ▪ Ted Bairstow, Director General, Canadian Culture Online 	Gatineau, QC
	Telefilm Canada (Head Office): <ul style="list-style-type: none"> ▪ Bruno Légaré, National Sector Head – New Media ▪ Marilyn Burgess, Senior Policy Advisor, Policy, Planning and Research 	Montreal, QC
	Telefilm Canada (Vancouver office): <ul style="list-style-type: none"> ▪ William Barron, Manager New Media 	Vancouver, BC
	Telefilm Canada (Toronto office): <ul style="list-style-type: none"> ▪ Agnes Zak, Manager, New Media 	Toronto, ON
	National Research Council: <ul style="list-style-type: none"> ▪ George Ortega, Industrial Technology Advisor, Industrial Research Assistance Program 	Winnipeg, MN
New Media Companies		
Web/games/mobile	Breakthrough Media Inc.	Toronto, ON
Mobile content creator	Bight Interactive	Dartmouth, NS
Online Gaming	Frima Studio	Québec, QC
Convergent Web	Groupe ECP Inc.	Outremont, QC
Consoles	Artificial Mind & Movement	Montreal, QC
Convergent Web/Mobile	Snap Media Corp.	Toronto, ON
Convergent Web	Marble Media Inc.	Toronto, ON
Convergent Web	Xenophile Media Inc.	Toronto, ON
Web	Igloolik Isuma Productions	Igloolik, NU
Web	Epitome Productions	Toronto, ON
Online Games	Bardel Entertainment	Vancouver, BC
Convergent Web	Budget Monks Production	North Vancouver, BC
Wireless	Blister Entertainment	Calgary, AB
Industry Associations		
	New Media BC / Canadian Interactive Alliance (CI@IC)	Vancouver, BC
	Alliance NumériQC	Montréal, QC
	New Media Business Alliance / OMDC PI@tform / Canadian Interactive Alliance	Toronto, ON

	CFTPA (Canadian Film and Television Production Association)	Ottawa, ON
Academic and Other Industry Specialists		
	SAT (Society for Arts and Technology)	Montreal, QC
	Delvinia Interactive Inc.	Toronto, ON
	CHUM Television	Toronto, ON
	Banff New Media Institute	Banff, AB
	Fan Trust Entertainment	Vancouver, BC
Other Funding Programs		
	Bell Broadcast and New Media Fund	Toronto, ON

Appendix B – Interview Guides

Interview Guide – Evaluation of the Canada New Media Fund – Interviews with Recipients

A. Background

Kelly Sears Consulting Group has been engaged by the Department of Canadian Heritage to conduct an Evaluation of the Canada New Media Fund (CNMF), which is delivered by Telefilm Canada. The objectives of the study are to:

- The relevance of the program.
- The results achieved.
- The program's cost-effectiveness.
- Appropriateness of the program's design and delivery.

We are conducting interviews with sample of companies that have participated in the program to obtain feedback on the above topics. The interview will not last more than one hour. Your views will be kept confidential and will be aggregated with all of the responses we receive. We thank you for your time and input.

B. Questions

Please review the following questions in advance of your interview. If you have no opinion on a particular question, feel free to skip it.

1. **Your company.** Please provide a brief overview of your company.
2. **Trends in the Canadian new media industry.** What have been and what will be the major trends and issues in the new media industry?
3. **Description of your CNMF project(s).** Please describe your CNMF project(s), e.g., how you found out about the program; the application process; project objectives; amount of CNMF funding; other funding sources; main project activities; project outputs; reporting process to Telefilm; etc.
4. **Results of your project(s).** What have been the main results of your CNMF project(s), in terms of:
 - a. Creation of new technologies.
 - b. Creation of cultural digital products.
 - c. Sales of products (units and revenues).
 - d. Supporting the growth of your company.

- e. Access to your products by consumers.
 - f. Other results?
5. **Other positive/negative impacts of the CNMF.** Have there been other positive or negative impacts from the CNMF that were not discussed above?
 6. **Importance of the CNMF.** If CNMF funding had not been available to your company, what would have been the impact on your planned project(s)? What would have been the overall impact on your company?
 7. **Importance of the CNMF to the new media industry.** Overall, what contribution has the CNMF program made to the development of the new media industry in Canada?
 8. **Rationale for the CNMF.** In your view, is the CNMF program still needed today? Why or why not?
 9. **Delivery of the CNMF by Telefilm Canada.** What are the strengths and weaknesses of the program delivery process by Telefilm?
 10. **Reporting process.** Please describe how you report on the progress and results of your project to Telefilm. Are any changes required to the reporting process?
 11. **Design of the Product Assistance component.** The CNMF Product Assistance component provides conditionally repayable contributions for market research and prototyping, product development and marketing/distribution of cultural new media products. What are the strengths and weaknesses of each of these components? Are the funding limits within the Program Assistance category appropriate?
 12. **Design of the Online Distribution Assistance and Sectoral Assistance components.** The Online Distribution Assistance component provides support for online distribution projects aimed at creating and enhancing the availability and visibility of Canadian new media products. The Sectoral Assistance component provides support for sectoral awareness activities that encourage promotion and professional and industrial development. What are the strengths and weaknesses of these two components?
 13. **Other program alternatives.** Are there other types of programs that could achieve the objectives of the CNMF in a more cost-effective fashion?
 14. **Duplication/overlap and complementarity.** Does the CNMF overlap or complement other programs offered by organizations in the private, public or not-for-profit sectors?
 15. **Other countries.** Are you aware of similar programs in other countries? What are the similarities and differences?
 16. **The way ahead.** Finally, is the CNMF well-positioned to meet the needs, opportunities and challenges of the industry over the next five years?

Interview Guide – Evaluation of the Canada New Media Fund – Interviews with Industry Associations and Industry Specialists

A. Background

Kelly Sears Consulting Group has been engaged by the Department of Canadian Heritage to conduct an Evaluation of the Canada New Media Fund (CNMF), which is delivered by Telefilm Canada. The objectives of the study are to:

- θ The relevance of the program.
- θ The results achieved.
- θ The program's cost-effectiveness.
- θ Appropriateness of the program's design and delivery.

We are conducting interviews with key stakeholders to obtain feedback on the above topics. Below is a list of questions we would like to cover during this interview. The interview will not last more than one hour. Your views will be kept confidential and will be aggregated with all of the responses we receive. We thank you for your time and input.

B. Questions

Please review the following questions in advance of your interview. If you have no opinion on a particular question, feel free to skip it.

1. **Your experience with the CNMF.** What has been your experience to date with the CNMF?
2. **Trends in the Canadian new media industry.** What have been, and what will be the major trends and issues in the Canadian new media industry?
3. **Results of the CNMF.** What has the CNMF achieved with respect to:
 - a. Creating cultural new media products.
 - b. Providing Canadians with access to digital new media products.
 - c. Supporting the development of the new media industry in Canada.
4. **Importance of the CNMF to the new media industry.** Overall, what contribution has the CNMF program made to the development of the new media industry in Canada?
5. **Other positive/negative impacts of the CNMF?** Have there been other positive or negative impacts from the CNMF that were not identified above?

6. **Rationale for the CNMF.** In your view, why was this program created? Is the program still needed today, i.e., does it meet the needs of the industry? How well does the program fit with other government support mechanisms?
7. **Delivery of the CNMF by Telefilm Canada.** What are the strengths and weaknesses of the delivery process? Is Telefilm the most efficient and effective organization for delivering the CNMF?
8. **Other delivery alternatives.** Could the CNMF's objectives be achieved through other types of programs?
9. **Design of the CNMF Product Assistance component.** The CNMF Product Assistance component provides conditionally repayable contributions for market research and prototyping, product development and marketing/distribution of cultural new media products. What are the strengths and weaknesses of each of these components? Are the funding limits within the Program Assistance category appropriate?
10. **Design of the CNMF Online Distribution Assistance and Sectoral Assistance components.** The Online Distribution Assistance component provides support for online distribution projects aimed at creating and enhancing the availability and visibility of Canadian new media products. The Sectoral Assistance component provides support for sectoral awareness activities that encourage promotion and professional and industrial development. What are the strengths and weaknesses of these two components?
11. **Duplication/overlap and complementarity.** Does the CNMF overlap or complement other programs offered by organizations in the private, public or not-for-profit sectors?
12. **Other countries.** Are you aware of similar programs in other countries?
13. **The way ahead.** Finally, is the CNMF well positioned to meet the needs, opportunities and challenges of the industry over the next five years?

Interview Guide – Evaluation of the Canada New Media Fund – Interviews with Federal Government Representatives

A. Background

Kelly Sears Consulting Group has been engaged by the Department of Canadian Heritage to conduct an Evaluation of the Canada New Media Fund (CNMF), which is delivered by Telefilm Canada. The objectives of the study are to:

- θ The relevance of the program.
- θ The results achieved.
- θ The program's cost-effectiveness.
- θ Appropriateness of the program's design and delivery.

We are conducting interviews with key stakeholders to obtain feedback on the above topics. Below is a list of questions we would like to cover during this interview. The interview will not last more than one hour. Your views will be kept confidential and will be aggregated with all of the responses we receive. We thank you for your time and input.

B. Questions

Please review the following questions in advance of your interview. If you have no opinion on a particular question, feel free to skip it.

1. **Your experience with the CNMF.** What has been your experience to date with the CNMF?
2. **Trends in the Canadian new media industry.** What have been and what will be the major trends and issues in the new media industry?
3. **Results of the CNMF.** What has the CNMF achieved with respect to
 - a. Creating cultural new media products.
 - b. Providing Canadians with access to digital new media products.
 - c. Supporting the development of the new media industry in Canada?
4. **Importance of the CNMF to the new media industry.** Overall, what contribution has the CNMF program made to the development of the new media industry in Canada?
5. **Other positive/negative impacts of the CNMF?** Have there been other positive or negative impacts from the CNMF that were not identified above?

6. **Rationale for the CNMF.** In your view, why was this program created? Is the program still needed today? How does the CNMF link to the priorities of the Department of Canadian Heritage and of the Government of Canada?
7. **Delivery of the CNMF by Telefilm Canada.** What are the strengths and weaknesses of the delivery process? Is Telefilm the most efficient and effective organization for delivering the CNMF?
8. **Management of the CNMF by Department of Canadian Heritage.** Please describe how the program has been managed over the years, including the modifications made to the CNMF.
9. **Performance measurement.** Describe the performance measurement framework and reporting mechanisms for the CNMF. Are you satisfied with the performance reporting provided to the Department by Telefilm?
10. **Other delivery alternatives.** Could the CNMF's objectives be achieved through other types of programs?
11. **Design of the Product Assistance component.** The CNMF Product Assistance component provides conditionally repayable contributions for market research and prototyping, product development and marketing/distribution of cultural new media products. What are the strengths and weaknesses of each of this component? Are the funding limits within the Program Assistance category appropriate?
12. **Design of the Online Distribution Assistance and Sectoral Assistance components.** The Online Distribution Assistance component provides support for online distribution projects aimed at creating and enhancing the availability and visibility of Canadian new media products. The Sectoral Assistance component provides support for sectoral awareness activities that encourage promotion and professional and industrial development. What are the strengths and weaknesses of these two components?
13. **Duplication/overlap and complementarity.** Does the CNMF overlap or complement other programs offered by organizations in the private, public or not-for-profit sectors?
14. **Other countries.** Are you aware of similar programs in other countries?
15. **The way ahead.** Finally, is the CNMF well-positioned to meet the needs, opportunities and challenges of the industry over the next five years?

Interview Guide – Evaluation of the Canada New Media Fund – Interviews with Telefilm Canada

A. Background

Kelly Sears Consulting Group has been engaged by the Department of Canadian Heritage to conduct an Evaluation of the Canada New Media Fund (CNMF), which is delivered by Telefilm Canada. The objectives of the study are to:

- θ The relevance of the program.
- θ The results achieved.
- θ The program's cost-effectiveness.
- θ Appropriateness of the program's design and delivery.

We are conducting interviews with representatives of PCH, other government departments, Telefilm, CNMF funding recipients and other industry specialists to obtain feedback on the above topics. Below is a list of questions we would like to cover during this interview. We thank you for your time and input.

B. Questions

Please review the following questions in advance of your interview. If you have no opinion on a particular question, feel free to skip it.

1. **Your experience with the CNMF.** What has been your experience to date with the CNMF?
2. **Trends in the Canadian new media industry.** What have been and what will be the major trends and issues in the new media industry?
3. **Rationale for the CNMF.** In your view, why was this program created? Is the program still needed today? How does the CNMF link to the priorities of the Department of Canadian Heritage, Telefilm Canada and the Government of Canada?
4. **Importance of the CNMF to the new media industry.** Overall, what contribution has the CNMF program made to the development of the new media industry in Canada?
5. **Delivery of the CNMF by Telefilm Canada.** What are the key steps and features of the program delivery process?

6. **Management of the CNMF by Department of Canadian Heritage.** Please describe how Telefilm interacts with the Department, e.g., with respect to planning, financial management and reporting. Are any changes required?
7. **Performance measurement.** Describe the performance measurement framework and reporting mechanisms for the CNMF.
8. **Results of the CNMF.** What has the CNMF achieved with respect to:
 - a. Creating cultural new media products.
 - b. Providing Canadians with access to digital new media products.
 - c. Supporting the development of the new media industry in Canada.
9. **Other positive/negative impacts of the CNMF?** Have there been other positive or negative impacts from the CNMF that were not identified above?
10. **Other delivery alternatives.** Could the CNMF's objectives be achieved through other types of programs?
11. **Design of the Product Assistance component.** What are the strengths and weaknesses of this component? Are the funding limits within the Program Assistance category appropriate?
12. **Design of the Online Distribution Assistance and Sectoral Assistance components.** What are the strengths and weaknesses of these two components?
13. **Duplication/overlap and complementarity.** Does the CNMF overlap or complement other programs offered by organizations in the private, public or not-for-profit sectors?
14. **Other countries.** Are you aware of similar programs in other countries?
15. **The way ahead.** Finally, is the CNMF well-positioned to meet the needs, opportunities and challenges of the industry over the next five years?