

THE UNIVERSITY OF NAIROBI SCHOOL OF LAW

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OF THE MASTER OF LAW (LL.M)**

**COPYRIGHT AS COLLATERAL IN KENYA; AN EXAMINATION OF
THE CURRENT LAWS, REGULATIONS AND INSTITUTIONS.**

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DECLARATION

This research proposal is my original idea and has not been submitted for award of degree or diploma in any other institution.

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Signature_____Date_____

This research proposal has been submitted to and accepted by the faculty for execution with my approval as the College supervisor.

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Mr. Andrew Muma

Signature_____Date_____

DEDICATION

To my grandmothers,

Rebecca Namweyi and Lucia Kisangani

‘A home without daughters is like a river without a source’

-Margaret Ogola-

To John Nandasaba and Bertha Nabisino

On whose shoulders I stand.

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I thank God for giving me the grace and strength that I needed to complete this project.

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ABSTRACT

A majority of the population in Kenya consist of the informal sector including those who are self-employed or run small scale businesses. These people are characterized by businesses operated on a small scale, they rely on resources that can be acquired locally and cheaply and they create innovations from and suitable for their environment as opposed to importing technology which is usually very expensive.¹

Majority of these Small Businesses have no tangible assets or a steady source of income making their innovations the only source of revenue and credit. To exploit these innovations they need capital. The most common way of acquiring capital in Kenya is to borrow from lenders. However lenders in Kenya will only advance money where one has a tangible asset that can be used as collateral or a steady source of income whereas capital ventures will demand a substantial portion of the returns or even partial ownership of the Intellectual Property if they are to invest in it. Thus there is need to consider other alternatives of finance for small companies with a portfolio of Intellectual Property.

This research thesis will examine first how Intellectual Property can be utilized as a collateral, with specific focus on copyrights in the film industry, based on practices of copyright collateralization in developed countries, specifically America and secondly whether the current Kenyan laws and institutions are adequate to enable the adoption of these practices of copyright collateralization in Kenya.

¹ Gibson Nabuteya Amenity, 'The Informal Sector in Kenya' <
<http://www.nayd.org/PDF/The%20informal%20sector%20in%20Kenya.pdf> > accessed on 1st March 2015.

ACRONYMS

ABS	Asset Backed Security
ACA	Anti Counterfeit Agency
DVD	Digital Versatile Device
IP	Intellectual Property
KAMP	Kenya Association of Music Producers
KECOBO	Kenya Copyright Board
MCSK	Music Copyright Society of Kenya
PRiSK	Performers Risk Society of Kenya
SPE	Special Purpose Entity
SPV	Special Purpose Vehicle

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INTRODUCTION

Small Companies are the hub of innovation. It is from these small companies that great ideas are derived. In order for these companies to exploit these ideas they need finances. The only assets they have are these ideas. One way of obtaining funds is from financial institutions such as banks. However, it is the practice of financial institutions in Kenya to lend money to small companies with tangible assets. These small businesses with intangible assets are often ignored when it comes to financing from lenders. As a result, these companies cannot exploit their ideas, create employment or grow.²

This raises the question, how can small companies that only have intangible assets access financing?

The ownership of a copyright does not equate to automatic exploitation of this Intellectual Property. A copyright holder requires money in order to exploit his copyright. Thus lack of finances can led to the un-exploitation of copyright for small companies.³

It has been the practice of most copyright owners to publish their work using either savings or income from other jobs. Neither of which is easy to come by.⁴

Copyright can be used as a security to raise finances. Specifically it can be used as an asset backed security. This can be done it two ways. As a copyright mortgage or the securitization of copyrights. In order for this to work the lenders must be willing to accept this type of property as security and advance credit based on this.⁵

The first country that successfully utilized both ideas was America. Firstly America created copyright laws. The adoption of Copyright Law of United States of America of 1909 can be traced back to 1790 when the first congress passed copyright statues that addressed protection for copyright owners, duration of ownership, forms of infringement, transfer of ownership

² Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

³ Aleksandar Nikoli, 'Securitization of Patents and its Continued Viability in Light of Current Economic Constitution' (2009) 19. 2 Albany law Journal <http://www.albanylawjournal.org/Documents/Articles/19.2.393-Nikolic.pdf> dated 1st February 2015.

⁴ Vnzomo, 'Kenya's Middle Income Status Requires Review of Copyright Law' (CIPIT, 10th October 2014) <<https://cipitlawstrath.wordpress.com/2014/10/10/kenyas-middle-income-status-requires-review-of-copyright-law/>>accessed 19th March 2015.

⁵ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

and remedies available.⁶ This Act further granted the American Authors the right to publish their work for 14 years. The aim of this law at the time was to create an incentive to encourage the creation of original works by authors and artists.⁷

During the American colonial period the law of chattel mortgages was developed. This was followed by the recognition of the importance of intellectual property in mortgages after the American Revolution which in turn resulted in the adoption of these properties by lenders in chattel mortgages. In the 1909 Copyright Act Section 42 provided for the assignment and mortgage of copyrights⁸. Overtime the copyright mortgage was further embraced with the development of new technologies which introduced new ways of expression, distribution and copying more so in the film industry.⁹ In this case the Mortgagor conveyed to the Mortgagee the right, title and interest in the Copyright in order to secure the payment of the debt. Once the debt is paid on time the right, title and interest in the copyright reverts back to the mortgagor.¹⁰

Running parallel to this development was the promulgation of the Uniform Commercial Code in 1952. The code aimed to create uniform commercial laws because each state had its own commercial law. In 1962, Article 9 was introduced to the Uniform Commercial Code. This article eliminated the various distinctions between various security devices. It ensured the adoption of secured transactions across America and an increase in financing using Intellectual Property as it covered all transactions that created security interests in personal property, regardless of the form. It in effect eliminated the practice of conditional assignment of copyrights that was prevalent in copyright mortgages.¹¹ This was the birth of collateralization of copyrights in America.

The first ever case of securitization of copyright in America was the Bowie bonds. This can be traced back to 1997 when David Bowie, a singer, used the future royalties of his music as

⁶ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

⁷ Association of Research Libraries, 'Copyright Timeline: A History of Copyright in the Unites States' <
<http://www.arl.org/focus-areas/copyright-ip/2486-copyright-timeline#.VUc0dJMn4vQ> > accessed on 25th April 2015.

⁸ Copyright Act 1909, s 42.

⁹ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

¹⁰ Ibid 513.

¹¹ Ibid 526.

securities and proceeded to sale them in a private bond for 55 million dollars. David Pullman is the person who came up with the securitization structure of music royalties of David Bowie. When Bowie realized that his recording and distribution contract was about to come to an end he decided to buy out his manager who owned a minority share of the rights to his music. For this he required a significant amount of money immediately. Pullman had concluded that Bowie is likely to raise more money if he issued an asset backed bond utilizing Bowie copyrights. The assets in this transaction would be the future cash-flow or royalties of Bowie's music that comprised of twenty five albums. These bonds were purchased by Prudential Insurance Company for 55 million US Dollars.¹²

Therefore in order for copyright to be accepted as a form of commercial security in Kenya firstly, there should be good copyright laws and system that ensures proper recognition, protection, and enforcement of Copyright and secondly there must be commercial laws that allow and recognizes the use of Copyright as Security in finance transaction. Thereafter there must be an intersection of these two systems to perfect the use of Intellectual Property as security.¹³

In Kenya, lending is generally based on the use of property and land as collateral.¹⁴ Mortgages were adopted in Kenya due to the improved lands laws that provided for the registration and land allocation process making Kenya the third country in Sub Sahara Africa with the largest mortgage market after Namibia and South Africa.¹⁵

The Constitution of Kenya provides that Kenyan citizens can hold land either as a freehold or leasehold. However foreigners can only hold land as leasehold for 99 years.¹⁶

In order to improve collateral based lending in Kenya, the allocation, transfer and registration of land was made more effective with the consolidation of the Land Acts. This brought about clarity in the case of land registration. It brought about transparency in the process of land

¹² John Gabala JR, 'Intellectual Alchemy: Securitization of Intellectual Property as an Innovative Form of Alternative Financing' (2004) 315.

¹³ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 *Indiana Law Review* <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

¹⁴ The World Bank, 'Developing Kenya's Mortgage Market' (Report no 63391-KE, 2011) 20.

¹⁵ Ibid.

¹⁶ Constitution of Kenya 2010, s 64-65.

adjudication and transfer. This in turn increased the value of property hence reducing the cost of credit.¹⁷

Mortgage Lending in Kenya is a domain of the banks and Mortgage Companies. Copyright Mortgage is not provided for in the laws of Kenya. Although the laws of Kenya do not directly address the issue of collateralization of Intellectual Property, they have created an environment where the adoption of this form of collateralization is possible. Capital Market Authority Act Cap 485A (Amended 2013) introduced asset backed securities. These asset backed securities are described in Part IVB, Section 30H of the act as a right or interest, debenture or a certificate that is the evidence of the holder's legal, equitable and beneficial interest to a share of assets of a Special Purpose Vehicle or that is evidence of the holders' entitlement to the payment that accrues from such assets as a consequence of the establishment or operation of the securitization transaction¹⁸. The assets there after have been defined to mean property whether tangible or intangible including any benefits transferred by an originator to a special purpose vehicles.

They have further become more visible in Kenya with the passing of the Capital Market (Asset Backed Securities) Regulations 2007. This has made it possible for companies with Intellectual Property Asset portfolios to raise long term funds using these portfolios. The future cash flow from these Intellectual assets can be used to secure immediate capital for a company

The film industry in Kenya goes back to 1909 when the American President Theodore Roosevelt visited Kenya for a safari and hired Cherry Keaton, a British wildlife photographer to film his safari. Thus the first film to be made in Kenya 'Theo in Africa' was created and screened in 1910. The movies in this time were mostly on hunting expedition and documentaries. Africans did not participate in the production of any film save for purposes of carrying the equipment's. However, after Kenya gained independence, the Kenya Institute of Mass Communication was instituted to train Africans who intended to take over from Europeans who had been working at the Kenya Broadcasting Corporation. Thereafter, Ragbir Singh produced the first Swahili movie called 'Mlevi'. This was followed by more movies that include the Rise and Fall of Idi Amin by Sharad Patel in 1981 and Saikati in 1993. The growth in the industry slowed down until the onset of technology inspired growth again

¹⁷ Constitution of Kenya 2010, s 24.

¹⁸ Capital Market Authority Act 2000, s 30H.

leading to the rapid development of Riverwood Film Industry, with production of movies such as Dangerous Affairs made by Njeri Karago and From a Whisper in 2009 by Wanuri Kahiu. The greatest challenge however remains finances. For the movie 'Dangerous Affairs', the production was funded by an independent NGO.¹⁹

The growth of technology and the entertainment industry in Kenya has increased the popularity of copyright. The entertainment industry has brought with it movies and television programs which need an initial source of funding to be produced.²⁰ This has made copyright mortgage an attractive alternative to borrowing money for small companies which have these copyrights as their only assets²¹. However, despite the presence of commercial laws that have created an environment to allow for collateralization of Copyright, this is currently not practiced in Kenya. This can be attributed to many reasons; among them are the inadequate copyright laws and systems that have made the protection and enforcement of copyright difficult hence increasing the risky nature of copyright as collateral. As result many financial institutions have shunned the adoption of copyright as a security.

The copyright law and system have not evolved together with the developing technology to ensure the protection of copyrights. Internet has made it easy to infringe on these copyrights. It has increased the speed with which copyright infringement is carried out and it has made it difficult to distinguish between the copying and distribution of copyright. It is difficult to identify infringers and the level of liability of the infringement of digitized work between the user, the host and the access provider. Other forms of infringement have been introduced by the internet that is yet to be addressed by the law including linking and caching. There is also the aspect of fair use; the law is yet to clearly define what fair use is light of the internet.²²

¹⁹ Simiyu Barasa', 'A BRIEF HISTORY OF FILM IN KENYA' <http://filmkenya.blogspot.com/2011/10/brief-history-of-film-in-kenya.html>>accessed on 15th April 2015.

²⁰ Vnzomo, 'Kenya's Middle Income Status Requires Review of Copyright Law' (CIPIT, 10th October 2014) <<https://cipitlawstrath.wordpress.com/2014/10/10/kenyas-middle-income-status-requires-review-of-copyright-law/>>accessed 19th March 2015.

²¹ David Edwards, 'Patent Based Securitization; Blue Print for a New Class' 4 http://www.researchgate.net/publication/241479825_Patent_Backed_Securitization_Blueprint_For_a_New_Asset_Class accessed on 19th March 2015.

²² Vnzomo, 'Kenya's Middle Income Status Requires Review of Copyright Law' (CIPIT, 10th October 2014) <<https://cipitlawstrath.wordpress.com/2014/10/10/kenyas-middle-income-status-requires-review-of-copyright-law/>>accessed 19th March 2015.

The penalties of infringement are not adequate to deter the behavior. The duty of monitoring copyright transactions has been left to the copyright owner.²³

In the case of collective administrative Organizations, copyrights lack laws and system that address issues such as the existence of multiple collecting bodies in one area of copyright for example in Kenya we have the Kenya Association of Music Producers (KAMP), the Music Copyright Society of Kenya (MCSK) and the Performers Rights Society of Kenya (PRiSK).²⁴ These collective societies lack autonomy as majority are established under various government ministries.²⁵

Whereas the Kenya Copyright Board is bestowed with the power to administer and enforce copyright. It has to rely on the Attorney General Office in carrying out this duty and therefore lacks autonomy in the operation of its activities.²⁶ These gaps have in turn given raise to various unique concerns in regard to copyright collateralization. They include the need for extensive due diligence, this is because information on copyrights is not in one place and it can be expensive trying to get information on the ownership of a copyright. Another challenge is the high administrative cost. This can be attributed to costs incurred in regard legal counsel who are retained and paid to ensure that only authorized licensee utilize the copyright and that ownership of the copyright is protected at all time where it is challenged. There is also the constant risk of litigation, where the validity of ownership of the copyright may be successfully challenged, this means that the copyright holder in the mortgage may lose his right of ownership in the copyright and the asset in the whole structure will be lost. This can be avoided through due diligence and adequate protection of the copyright.²⁷

This research will examine whether the Kenya Copyright Laws are adequate in the recognition, protection and enforcement of copyrights in the film industry in Kenya and the role that copyright law and systems plays in the quest to adopt copyright mortgages as an alternative source of funding.

²³ Ben Sihanya, 'Copyright Law in Kenya'

<http://www.musicinafrica.net/sites/default/files/Copyright%20Law%20in%20Kenya%20-%20Prof%20Ben%20Sihanya.pdf> accessed on 4th March 2015.

²⁴ Vnzomo, 'Kenya's Middle Income Status Requires Review of Copyright Law' (CIPIT, 10th October 2014) <<https://cipitlawstrath.wordpress.com/2014/10/10/kenyas-middle-income-status-requires-review-of-copyright-law/>> accessed 19th March 2015.

²⁵ B Sihanya, 'Copyright Law in Kenya'

<http://www.musicinafrica.net/sites/default/files/Copyright%20Law%20in%20Kenya%20-%20Prof%20Ben%20Sihanya.pdf>> accessed on 5th March 2015, 18.

²⁶ Ibid.

²⁷ Nigel Jones and Ann Hoe, 'Global IP backed securitization: realising the potential' (2006) 3.

1.2 Statement Of The Problem

There are no proper Copyright laws, Systems and Institutions in Kenya to ensure adequate recognition, protection and enforcement of copyrights in Kenya. Therefore lenders are hesitant to provide finances to copyright holders making the adoption of copyright mortgage as an alternative source of fund for small companies with copyright assets portfolio difficult.

1.3 Theoretical Framework

Joel Barlow- in his 1783 Letter to the, continental Congress that existed before the Federal Government, stated that, ‘There is certainly no kind of property, in the nature of things, so much his own, as the works which a person originates from his own creative imagination: And when he has spent great part of his life in study, wasted his time, his fortune and perhaps his health in improving his knowledge and correcting his taste, it is a principle of natural justice that he should be entitled to the profits arising from the sale of his works as compensation for his labor in producing them, and his risk of reputation in offering them to the Public.’

The Labor theory advanced by John Locke who stated that a “a person who labors upon resources that are either un owned or held in common has a natural property right to the fruits of his or her labor and that the state has a duty to respect and enforce such a natural right” provided that there will be enough left for others after the acquisition of the resources by the investor.²⁸ In other words, it is only fair to allow the small companies to enjoy the fruits of their labor that has resulted in the creation of a marketable portfolio of Intellectual Property that would have otherwise remained nonexistent and unavailable to the general public. This is the reward theory.²⁹

These natural rights are granted based on the authors ability to come up with original and creative work that is useful to the society and because the author is not under pressure to create works for economic reasons only, the author is likely to come up with quality work that ultimately enriches the society³⁰ Therefore natural rights is an award that is given to an author by an organized society as a reward for his creativity and originality.³¹

²⁸ William Fisher, ‘Theories of Intellectual Property’ <<http://cyber.law.harvard.edu/people/tfisher/iptheory.pdf>> accessed on 20th January 2015.

²⁹ Lionel Bently, Brad Sherman, *Intellectual Property Law*, (3rd edn, oxford university press, 2009) 37.

³⁰ Alina Ng, ‘The Social Contract and Authorship’ <<https://web.stanford.edu/dept/law/ipsc/pdf/ng-alina-ab.pdf>> accessed on 28th April 2015.

³¹ Ibid.

Therefore a copyright owner should be able to enjoy the benefits of what he has created or developed. One way of doing is through the exploitation of his copyright. There are several ways of exploitation of these copyright. The thesis shall focus on the use of copyright as collateral.

According to the lender based theory of collateral, most small banks rely on soft information provided by the borrower to award him the loan. This information is usually very basic and therefore in order for the bank to protect itself from a loss in the event of the borrower defaulting then award will require an asset of equivalent value to secure the borrowed money. According to this theory, the need for collateral increases in cases where the borrowers come from far. This is because in the case of such borrowers even the soft information may not be available. Collateral has been utilized by banks for years.³² This form of security is utilized where the banks feels there is information gap between itself and a borrower in regard to both the borrower and the purpose for which the money is being borrowed. Therefore the bank will adopt collateral as a means of protecting its own interest. Where this information gap is reduced between the borrower and the lender, the need for collateral reduces. This information gap is reduced through new technologies, new laws and policies that address the information shared between the lender and the borrower. Therefore as long as there is an information gap between the borrowers and the lenders, the lenders will embrace collateral to better protect their interest.³³

Further, good faith theory dictates that both parties in a contract should observe fairness in carrying out their obligations in a contract so that they can both attain their expectations. This is especially the case in lending contracts. The lender should not treat the borrower unfairly in a manner that causes him to default on this payment or terminate the contract unfairly without ample notice to the borrower. One way of ensuring this is carried out is by establishing laws, regulations or policies that will guide the relationship between the lender and the borrower.³⁴

³² Roman Inderst, Holger Mueller, 'A lender based theory of Collateral'

<http://people.stern.nyu.edu/hmueller/papers/Collateral.pdf> > accessed on 1st July 2016

³³ Allen N. Berger, Marco Espinosa, Scott Frame, Nathan Miller, 'Why Do Borrowers Pledge Collateral, New Empirical Evidence on the Role of Asymmetric Information' < <http://www.nathanhmilller.org/BEFM-collateral.pdf>>accessed on 21st April 2016.

³⁴ Paul Matthews Jones, 'Good Faith Theories of Lender Liability' (1988) 48 Louisiana Law Review <http://digitalcommons.law.lsu.edu/cgi/viewcontent.cgi?article=5123&context=lalrev> > accessed on 1st May 2016.

1.4 Literature Review

Nguyen takes us through the development of Copyright Mortgage in the United States. She points out that the first step to embrace Copyrights as a form of security is the creation of laws that will ensure the recognition, protection and enforcement of copyrights. She takes us back to 1790 when America introduced copyrights into their statutes. However, she goes on to point out that copyrights cannot be embraced as a commercial security based on copyright laws alone there is need for the creation of commercial laws that will recognize the use of copyrights as a commercial security. She insists that there is need for the intersection of Intellectual property laws and commercial laws. She recognizes that small businesses need funds to survive and although they do not have real estate property to secure loans they should be able to use what they have, and that is their intellectual properties. Thus financial institutions should accept this reality and embrace these intellectual properties as security for loans.³⁵

Locke has demystified securitization and the structure of securitization. She has explained the characteristic of a Special Purpose Vehicle. She States that an SPV can either be a trust as is the case in the United States of America or a Company. She however proposed that for purposes of ensuring that the SPV and the originator are completely separate the SPV should be a Company. This ensures insolvency remoteness of the SPV. Natalie Locke argues that in Britain it may be possible for the SPV to obtain a different identity from the originator where the trust is appointed as such by the Master of law under the Trust Property Control Act which ensures that the trust property is not considered as part of the trustee's personal property. This Act ensures that the beneficiaries under the trust are protected. Hence in South Africa the SPV is Company. Therefore, it is the trust in this case that holds the SPV.³⁶ Natalie Locke points out further that in America the SPV may be a Subsidiary of the originator however this is not possible in South Africa where by the SPV will not be exempt from the Banks Act if the originator holds more that 20% of the nominal shares of the SPV.

Natalie Locke further points out that the SPV can either be a private company or a public company.³⁷

³⁵ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

³⁶ Natania Locke, 'Aspects of Traditional Securitization in South African Law', (Doctorate of Law, of Pretoria, 2008)38< http://uir.unisa.ac.za/bitstream/handle/10500/2676/thesis_locke_%20n.pdf?sequence=1 >accessed 20th January 2015.

³⁷ Ibid 40.

Although Locke has examined securitization and its regulations she does not examine securitization as it specifically applies to intellectual property.

Alekseev in his thesis has tried to tackle the question as to whether it is possible to securitize intellectual property. In carrying out this process he examined the interrelated risks that one has to mitigate in the general securitization structure and applied them to Intellectual Property securitization structure. He has identified these risks to include the underlying asset risk, commercial risk, credit risk and legal risks³⁸. In examining these risks he concentrates mainly on the American Legal System. He further identifies the legal risks to include bankruptcy risk, property title and transfer risk, free riding (fair use risk), security law regulatory risks³⁹. He demonstrates that although these identified risks can be mitigated or reduced “the total risks exposure of securitization of Intellectual Property is higher than in the securitization of other types of assets” hence the reluctance of adoption and implementation of the securitization of Intellectual Property.⁴⁰

The said risk seemed to be shared by collateralization as further discussed by Leon Kaplan in his article, ‘Literary and Artistic Property (Including Copyright) as Security: Problems Facing the Lender’. He outlines the challenges that lenders who are secured by copyrights are likely to face. He focusses greatly on registered copyrights in America. He has identified the challenges to include the risky nature of copyrights.⁴¹

Risch argues that one way of reducing risk in the collateralization of Intellectual Properties is to put intellectual properties into portfolios. He argues that the value of individual intellectual properties is likely to vary greatly but in a portfolio this value becomes more stable. The patent in a particular portfolio should cover several different Products in a Technology field. This ensures that in a portfolio there will be at least a highly valuable asset at any one time ensuring the value of the portfolio remains high at any given time.⁴²

³⁸ Innokety Y Alekseev, ‘Securitization of Intellectual Property’, (Thesis, Stanford Law School 2002) 3 <
<http://law.stanford.edu/wp-content/uploads/2015/03/AlekseevInnokenty2002.pdf> > accessed 1st January 2015.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Leon Kaplan, ‘Literary and Artistic Property (Including Copyright) as Security: Problems Facing the Lender’
<http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=2597&context=lcp> accessed on 4th January 2017.

⁴² Michael Risch, ‘Patent Portfolios as Securities’ (2013) 63:89 Duke Law Journal, <
<http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=3396&context=dlj>> accessed on 12th January 2015.

Baloyi agrees that most Authors in African countries lack the resources to exploit their copyright works hence forcing many to assign their rights to others. That in spite of the presence of Copyright laws, many Sub Saharan African countries have not been able to develop economically through the economic exploitation of their copyrights. He provides that this can be attributed to the fact that in these countries exploitation of copyright is done by those people with a source of income. Therefore it is not the copyright that creates the opportunity to exploit a copyright rather, it is the individual who either has a constant source of income through a job they have or from their savings. Therefore it is the lack of resources that has stifled the exploitation of copyrights in these countries.⁴³

Vzomo believes that Copyright can greatly improve the economy of the country; however this has not been achieved so far because a lot of money has been lost through copyright infringement leading to the poor collection of royalties for the right holders and loss of taxes for government. He points out that copyright infringement has increased due to the improvements in electronic technology which has made copyright infringement fast and cheap. He argues that the current laws of Kenya on Intellectual Property cannot deal with the growing challenges that have been brought about by the internet, convergence, multimedia and digital technology-commerce. He recommends the improvement of Intellectual Property laws to deal with these emerging challenges as well as the improvement of the existing laws and regulations for collective administration of copyrights by collecting societies.⁴⁴ However he has not tackled the issue of copyright collateralization.

Kinuthi, Mutua and Mulwa in their article, 'Hindrances in Implementing Copyright Laws in Kenya' have mentioned technology has played a great role in the development of Kenya however; it has also been a big factor in the infringement of copyrights. This has increased copying in movies. More over distribution of such copies is taking place in the open. They propose improved legislation to deal with the menace of copyright infringement.⁴⁵ However

⁴³ JJ Baloyi, 'Demystifying the Role of Copyright as A tool for Economic Development in Africa: Tackling the Harsh Effects of the Transferability Principle in Copyright Law' (university of South Africa 2014) <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2497850>accessed 4th April 2015.

⁴⁴ Vzomo, 'Kenya's Middle Income Status Requires Review of Copyright Law' (CIPIT, 10th October 2014) <<https://cipitlawstrath.wordpress.com/2014/10/10/kenyas-middle-income-status-requires-review-of-copyright-law/>>accessed 19th March 2015.

⁴⁵ Peter Kinuthia, Nicholas Muthama, Martin Masyuki, 'Hindrances in Implementing Copyright Laws in Kenya' <http://www.academia.edu/4682250/HINDRANCES_IN_IMPLEMENTING_COPYRIGHT_LAWS_IN_KENYA>accessed on 1st September 2015.

they focus greatly on the role of computers only in the promotion of infringement of copyrights in Kenya.

According to the article, ‘The Scourge of Piracy: A menace to investors in Kenya’ piracy remains a big problem in Kenya. Piracy in Kenya has been identified to include individuals who have the machines to create copyright materials, package and distribute the same to the public, individuals who buy original movies and create copies from them for economic purposes and finally the broadcast pirates who carry out piracy through public screening, re broadcasting pirated copies and cable piracy with the advent of digital television. This form of piracy affects not only the copyright holder of the movie but the economy as a whole. It reduces the revenue of the film producer and it is likely to lead to the production of poor quality movies because producers feel they will not get their monies worth thanks to piracy. The scourge of piracy, according to this article, is worsened by the lack of knowledge both in the judiciary and in the police officers charged with the duty to investigate such cases. The article proposes creation of awareness as a means of fighting piracy but it has failed to discuss the role of the law in discouraging piracy.⁴⁶

According to Sihanya Kenya has not realized the full economic benefits of Intellectual Property. This, he attributes to the absence of a mechanism to monitor copyright transactions and legal penalties that are not punitive enough to deter future infringer *inter alia*. He further points out that the very institution charged with the responsibility to protect and enforce copyrights, that is, Kenya Copyright Board (KECOBO) is still dependent on the government to carry out some of its core functions such as enforcement of copyrights. Professor Sihanya further gives us the historical development of the copyright law in Kenya and the factors that influenced this development.⁴⁷

The role and the importance of a good legal structure in the development of collateralization of Intellectual Property are further echoed by Symaar and Stygmer in “securitization in South Africa, Historic Deficiencies and Future outlook”. They state further that collateralization will flourish best in either of these two conditions, where there are laws that support

⁴⁶ Kenya Copyright Board ‘The Scourge of Piracy: a Menace to Investors in Kenya’ (2011) 3 Copyright news <<http://www.copyright.go.ke/awareness-creation.html>> accessed on 19th May 2016.

⁴⁷ B Sihanya, ‘Copyright Law in Kenya’ <<http://www.musicinafrica.net/sites/default/files/Copyright%20Law%20in%20Kenya%20-%20Prof%20Ben%20Sihanya.pdf>> accessed on 20th April 2015.

securitization or where the demand for securities is very high. According to them the law affects every aspect of a securitization transaction and it is the absence of proper laws that led to the failure of securitization in South Africa. However it should be noted that they focus mainly on South Africa in their discussions and refer to asset backed securities more than collateral mortgages.

Simiyu in his article, 'A Brief History of Film in Kenya' proceeds to discuss the development of the film industry in Kenya. He traced this development to the colonial period and mentions that the film industry in Kenya was initially an all white's affair with Kenyans adopting the same much later on with the onset of independence in Kenya.⁴⁸ William Silla, in his article 'What is the Riverwood Ensemble worth?' proceeds to discuss further the development of the Riverwood in Kenya; he described the industry as being worth 60 Million Kenya Shillings in materials and equipment. He notes that although the industry is known to produce a lot of movies thanks to the advent of technology, they still face many economic challenges that make it hard for them to make any profit. According to Silla the producers have to pay up to 20000 ksh to the Department of Film in order to obtain a permit to shoot a movie and ksh 100 per minute for every movie they shoot to the Kenya Film Classification board.⁴⁹

Wakoko, in his article, 'The Evolution of Land Law in Kenya' takes us through the historical development of Land law in Kenya, he explains the period within which various land laws were introduced in Kenya and the reasons behind the introductions of these land laws that finally led to the current land ownership by individuals from traditional communal ownership. From this article we are able to understand how individuals came to own land in Kenya and how this form of ownership eventually led to the adoption of land as a form of collateral by the banks. However Wakoko has only focused land as form of collateral. He does not mention the use of Intellectual Property as a form of collateral.⁵⁰ Onalo further informs on the forms of security that can be created from land. These are a mortgage or a charge.⁵¹

⁴⁸ A Brief History of Film in Kenya, Simiyu Barasa < <http://filmkenya.blogspot.com/2011/10/brief-history-of-film-in-kenya.html>> accessed on 15th June 2015.

⁴⁹ William Silla, 'What is Riverwood Ensemble Worth?' 13 Copyright news <<https://www.google.com/search?q=law+and+medicine+in+kenya&ie=utf-8&oe=utf-8&client=firefox-b>> accessed on 31st August 2015.

⁵⁰ Valentine Wakoko, 'Evolution of Land law in Kenya,' <https://www.academia.edu/8972722/THE_EVOLUTION_OF_LAND_LAW_IN_KENYA> accessed on 13th February 2015.

⁵¹ P Onalo: *Land Law and Conveyance in Kenya (Heinemann Kenya 1986)*.

Kitonga encourages the use of contract in regard to rights under audio visual works in Kenya in his article. ‘An Overview of Contract and the Law on Audio Visual Industry in Kenya.’ Kitonga recognizes that in Kenya the audio visual industry has many players which include the producers, actors, distributors, actors and camera operators among others. All these parties will rely on the income that the copyright work will create. He further recognizes that the rights of the copyrights are a key factor in the audio visual industry and should be protected at all times where the parties aim to gain from it. Therefore a contract is essential not only to guide the relationship between the parties but also to govern the exploitation of the copyright in question.⁵²

Karumba and Wafula in their paper ‘Collateral Lending: Are There Alternatives for the Kenyan Banking Industry’ have examined the current collateral lending in Kenya. They conclude that although collateral lending in Kenya is quite popular there is still a challenge when it comes to the enforcement of the collateral agreements where a debtor defaults. This they attribute to the weak legal structures. However they do not elaborate further on these structures. They also identify land and estates as the most common form of collateral in Kenya.⁵³

Sigei on the other hand has examined the Collection Management Organizations in Kenya in his article, ‘The History and Future of Collective Management Organizations’. He has described these organizations as nonprofit making entities that assist their members in the collection of royalties. He identifies challenges faced by these organizations including lack of members which he attributes to the little supervision of these organizations by the Kenya Copyright Board and the absence of the resolutions mechanisms between the organization and its members. He thereafter makes recommendation to the Kenya Copyright Act 2001 Part IV that will assist in the improvement of the administration of this system. Mr. Sigei however does not discuss any other administrative structures in the management of copyrights.⁵⁴

The American Assembly, Columbia University, carried out a research on Copyright Infringement and Enforcement in America in November 2011. In this research they concluded that piracy was very common. Approximately 70% of the youth have at some

⁵² Gerry Gitonga, ‘An Overview of Contract and the Law on Audio visual Industry in Kenya’ (2012) 6 Copyright news < <http://www.copyright.go.ke/awareness-creation.html> > accessed on 19th July 2016.

⁵³ Mary Karumba, Martin Wafula, ‘Collateral Lending: Are there Alternatives for the Kenyan Banking Industry?’ (2012) < [http://www.kba.co.ke/img/pdf/Working_Paper_WPS_03_12\[2\].pdf](http://www.kba.co.ke/img/pdf/Working_Paper_WPS_03_12[2].pdf)>accessed on 3rd August 2015.

⁵⁴ Edward Sigei, ‘The History and Future of Collective Management Organizations’ (2012)8 Copyright news < <http://www.copyright.go.ke/awareness-creation.html>> accessed on 23rd May 2015.

point acquired music or movies in this manner. That 70% of families believe infringement of films is ok where as 46% of friends believed that it is ok to infringe a movie. According to the survey Americans do not think it is necessary to take punitive measures against those caught infringing on these copyrights online. In fact only 52% believe that such infringers should be fined and warned only. This demonstrates that there is a great challenge in the enforcement and protection against infringement in the film and movie industry.⁵⁵ The research however has only limited this research to America only.

Stim, in his article 'Copyright Registration and Infringement' explains copyright registration in America as including the pre-registration which is the registration of copyrights that are still being developed. He mentions that pre-registration is common when it comes to motion pictures as it allows the copyright owners to protect their work against any form of infringement before the completion of the same. He further informs that Copyright registration in America can be carried out both manually and electronically.⁵⁶

Copyright infringement in America has been discussed further by Hardy in his article, 'Criminal Copyright Infringement'. He noted that several changes were introduced in regard to the criminal infringement of copyrights. That the current copyright act prescribes greater penalties where criminal infringement has occurred, it has reviewed some copyright infringement acts which were considered misdemeanors into felonies which means a greater sentence. He also notes that with these changes there has been an increase in the number of infringement cases that are being prosecuted. He further argues that the public is likely to accept these forms of deterrent measures provided that they accept fully and consider that copyright is property and should be protected as such.⁵⁷ Hardy however has not addressed civil infringement in America although he acknowledges that it is one way in which copyrights in America are protected and enforced and it has been more popular than criminal infringement.

Moral rights have been defined as the right of an artist to protect the integrity of his work, by Pettenati in her article, 'Moral Rights of Artist in an International Marketplace'. These rights according to her differ from economic rights and persist even after the transfer of economic

⁵⁵ American Assembly, Columbia University, 'Copyright Infringement and Enforcement in US' <<http://piracy.americanassembly.org/wp-content/uploads/2011/11/AA-Research-Note-Infringement-and-Enforcement-November-2011.pdf>>accessed on 23rd December 2016.

⁵⁶ Rich Stim, 'Copyright Registration and Enforcement' <<http://fairuse.stanford.edu/overview/faqs/registration-and-enforcement/>>accessed on 28th June 2016.

⁵⁷ Trotter hardy, 'Criminal Copyright Infringement' <<http://scholarship.law.wm.edu/cgi/viewcontent.cgi?article=1320&context=wmborj>> accessed on 5th May 2016.

rights. These rights allow a copyright owner to ensure that his work will not be used or changed in a manner that will embarrass him or a manner that he considers immoral or degrading. She notes that the Copyright Act in America does not protect moral rights. She further notes that the only instance where this right is protected is in the case of visual artists and it is protected by the Visual Artist Rights Act of 1990.⁵⁸

The creation of film is discussed in the article 'From Script to Screen, The Importance of Copyright in the Distribution of Films, This article is written by several authors commissioned by World Intellectual Property Organization. They have specifically discussed the creation of the film with special focus on the different parties that are involved and their rights; these include the authors, script writers, producers, directors, distributors and sales agents. They discuss the various roles that each party plays in the creation of a film and most importantly they discuss the rights of each party in this exercise. They propose the creation and execution of contracts to govern the relationships between these parties and the rights that have to be surrendered by various parties during different stages in the creation of a film. They also addressed the issue of the value chain. In this regard they examine how each of these parties gain from the creation of the movie. They point out that the first source of income is the cinemas, then income created from the sale or rent of these movies They note however that with new technologies that have introduced new and faster methods of copyright infringement, the value chain in movies is greatly watered down and all these parties end up losing a lot of money despite their efforts. In this article they state that copyright laws are there not only to protect the copyright owner but all the other parties that are entitled in one way or the other to these copyright. They include lenders in the case of copyright mortgages.⁵⁹

1.5 Justification

In Kenya small business owners who hold copyrights as assets cannot obtain secured credit like owners of tangible assets. This can be attributed to many factors including ignorance, absence of proper laws and regulations or the improper enforcement of the existing laws and regulation on copyright or even the high risk associated with the collateralization of Intellectual Property.

⁵⁸ Leslie Pettenati, 'Moral Rights of Artists in an International Marketplace.' 12(2) Pace International Law Review < <http://digitalcommons.pace.edu/cgi/viewcontent.cgi?article=1234&context=pilir> > accessed on 30th April 2016.

⁵⁹ World Intellectual Property Organization, 'From Script to Screen: The Importance of copyright in the Distribution of Films' < http://www.wipo.int/edocs/pubdocs/en/copyright/950/wipo_pub_950.pdf > accessed on 5th July 2015.

The situation is more serious in film industries which need a lot of upfront funds in order to produce and publish their work in time to make money.

This thesis aims to encourage the adoption of copyright mortgages as a form of security. The thesis will provide information on the areas, if any, that need improvement in our legal system in regard to the protection and enforcement of copyrights.

If copyrights are adopted in Kenya as a commercial security, it means the commercial value of copyright assets will increase making them more acceptable to investors and lenders⁶⁰. It will ensure that those companies with a copyright asset portfolio can now access funds which they can in turn use in financing the creation and publication of more copyright⁶¹.

1.6 General and Specific Objective of the Study

The general objective is to determine whether copyright mortgages in the film industry can be utilized to access finances in Kenya.

The specific objective of the study include:-

1. To determine the challenges faced by copyright holders in the recognition, protection and enforcement of copyrights in the film industry in regard to existing laws and administrative structures.
2. To determine the impact of these challenges on collateralization of copyrights in the film industry.
3. To make proposals on areas of improvement to ensure the use of copyrights as collateral.

1.7 Hypothesis

Kenya will embrace the use of Copyright as collateral when there are adequate regulations and systems in place that ensure the proper recognition, protection and enforcement of copyrights.

1.8 Research Question

Are regulations and systems in Kenya adequate to ensure the recognition, protection and enforcement of copyrights thus fostering its use as collateral to obtain funding by the players in the film industry?

⁶⁰ Innokety Y. Alekseev: Securitization of Intellectual Property (thesis, Stanford Law School 2002), 2 < <http://law.stanford.edu/wp-content/uploads/2015/03/AlekseevInnokenty2002.pdf> > accessed in January 2015.

⁶¹ Ibid.

1.9 Methodology

The research will be analytical. It will include data from secondary sources

The research will rely on the following sources for information:-

- a) Library Sources which includes textbooks and Journals from Nairobi University
Parklands Library
- b) Internet Sources

1.10 Anticipated Challenges

The main challenge is the lack of materials on the topic especially as regards to Intellectual Property collateralization in general and copyright mortgages specifically. This challenge will be overcome with Internet sourced materials on copyright mortgages and the application of knowledge acquired from books that address securities generally.

1.11 Chapter Breakdown

Chapter one provides us with an introduction to the thesis. It is a breakdown of the purpose and objective of this thesis. It also provides the justification of this study, the hypothesis, the research question, the hypothesis as well as the challenges that the researcher faced.

Chapter two examines the historical development and the challenges that the film industry in Kenya has faced so far. It mentions the options available to producers in both television and film industries in regard to acquisition of finances. It focuses more on the forms of collateral currently in use in Kenya film and television industry to secure finances.

Chapter three discusses the several Kenyan laws and systems and their adequacies in the recognition, protection and enforcement of copyrights. It closely examines the Constitution of Kenya 2010, the Copyright Act Cap 130, and the Anti-counterfeit Act Cap 130A among others act. Several commercial laws in Kenya that touch on collateralization are also mentioned in this chapter.

Chapter four examines the development of the Copyright Law and copyright mortgages in America and how it has ensured the protection and enforcement of copyrights in America. The chapter will also give a brief historical development and use of copyright mortgages in America. It also examines the challenges that America faced in the development of copyright mortgages and how they overcame these challenges.

Chapter five gives the observations made in regard to the challenges faced in the recognition, protection and enforcement of copyright and makes recommendations and how Kenya can improve based on the practice in America.

CHAPTER TWO

DEVELOPMENT OF FILMS INDUSTRY IN KENYA AND THE RECOGNISED COLLATERALS

2.1 Introduction

To ensure economic growth, it is vital that the private sector have access to credit. The private sector has problems accessing credit because in most cases the collateral offered is either not adequate or it is unacceptable to the lenders. Often, the problem is not that the borrowers do not have collateral rather that the collateral proposed is unacceptable. Many lending institutions prefer immovable property as collateral, that is, land and real estate.⁶² However, as will be demonstrated in this chapter, with time these lending institutions have come to accept moveable property as well.

This chapter discusses the type of collateral accepted by lending institutions in Kenya and utilized in the film and television industry.

2.2 Development of the Film Industry in Kenya

The first film in Kenya was made in 1909 when the president of American then, Theodore Roosevelt visited Kenya for a Safari. During this time he hired a British wildlife photographer, Cherry Keatong to film his visit. The film was later showed in America. This was there after followed by other documentary films that focused mainly on hunting expeditions of Europeans in the wilderness of Africa and fictional films filmed in the Kenya wildlife such as film 'The Snow of Mt Kilimanjaro'. Africans did not participate in the shooting or acting of these movies other than as porters or extras. The role of Kenyans in movie production changed with Independence. Kenyans replaced many of the Europeans at the Kenya Broadcasting Corporation. This led to the development of films prepared by local producers such as Ragbir Sign who produced the movie 'mlevi' in 1968. However the entry of locals in the movie industry did not deter the production of movies by foreigners. In the 1980's the movie 'out of Africa.' was shot in Kenya alongside other local movies such as the famous 'Rise and Fall of Idi Amin of 1981) and Saikati of (1993). Movie production then faced a lot of challenges resulting into very few local films to speak of.⁶³

⁶² International Finance Corporation, 'Secured Transactions Systems and Collateral registries' (2010) < <https://www.wbginvestmentclimate.org/uploads/SecuredTransactionsSystems.pdf> > accessed on 15th June 2015.

⁶³ A Brief History of Film in Kenya, Simiyu Barasa < <http://filmkenya.blogspot.com/2011/10/brief-history-of-film-in-kenya.html> > accessed on 15th June 2015.

The digital development and revolution has brought about the increased production of local movies spearheaded by Kenya River wood industry. The industry uses cheap digital equipment to make a movie and edit it using personal computers. The actors or artists used are picked from the local population. This has considerably reduced the budget and allowed for faster turnaround time. As a result the industry produces between 100 to 200 movies weekly. Each copy sells at around ksh 200 a copy. The movies have proven to be popular because the local people are able to identify with them. This has also promoted Kenyan movies internationally such as the movie 'From a Whisper' by the Kenyan producer Wanuri Kahiu⁶⁴

The Riverwood industries has been estimated to be worth about 60 million Kenya shillings taking into account all the equipment and materials in use. It also provides employment for approximately 20,000 people.⁶⁵

There is also Machakos Entertainment Centre for Film Media, Music and the Arts (Machawood) which was launched in 2013 by the Governor Alfred Mutua. It released its first film in 'Love and Deceit in 2014. This industry is expected to create 500 million in revenue and about 30, 000 jobs.⁶⁶

The availability of funds for purposes of movie production remains a great challenge in Kenya. Therefore producers have resorted to seek funds for their production through various ways. The most common way of funding is through sponsors and grants. These sponsors include Non-Governmental Organizations, Civil Society Organizations, Government Ministries and parastatal, embassies as well as private entities such as beverage companies. The only catch is that the film they sponsor has to reflect their agendas. More often than not such sponsors will request to have editorial rights in the movie.⁶⁷ Examples of films created this way include the SaulBoy (2008), Nairobi Half Life (2012), Something necessary (2013) and Veve (2014) films were financed by the German Ministry for Economic Cooperation and Development, and the Goethe Institute Nairobi.⁶⁸ The film

⁶⁴Riverwood: Kenyan Super-fast super cheap filmmaking <
<http://www.southerninnovator.org/index.php/home/1-creative-econ/7-riverwood-kenyan-super-fast-super-cheap-filmmaking> > accessed on 8th July 2015.

⁶⁵ Rosemary Waithaka, 'An Interview with A Film and TV Writer at Buni Media' (Copyright news 9) 11.

⁶⁶ William Sila, 'Machawood Releases its First Movie' (Copyright news 9) 21.

⁶⁷ Filmbzafrika, 'Sourcing for Funding for Your Film' <www.kenyabuzz.com/lifestyle/sourcing-for-funding-for-your-film> accessed 12th June 2015.

⁶⁸ Business Daily, 'How 'Nairobi Half Life' producer builds Kenyan Film Talent' <
<http://www.businessdailyafrica.com/How--Nairobi-Half-Life--producer-builds-Kenyan-film-talent/-/539444/2448222/-/item/0/-/i8hndl/-/index.html> > accessed on 12th November 2015. Sponsors and Grants. The producer approaches these sponsors with a sponsorship letter in which he outlines the company aim and

producers may also get Government Funding through the Kenya Film Commission. The problem in this case is that these small producers are not guaranteed to receive this form of funding.⁶⁹

The film producers are on occasion funded by corporations. In this case a producer approaches major corporations in Kenya to sponsor film production. An example where this has worked is in the case of the successful series *Cobra Squad*. The producer approached Coca-Cola Company and Nakumatt Supermarket Company to sponsor their production. In return their products were featured in the series. However this form of financing is not common as majority of the corporation are not willing to invest in an industry that has just started growing.⁷⁰

Lastly, the film producers may acquire funds through the use of Collateral. This has been described as the property that is pledged as security in order to satisfy a debt. It is supposed to ensure that the borrower performs his principle obligation and where this is not attained, the same is forfeited. In the UK the word used to describe collateral is ‘Security’.⁷¹ Collateral is the most common form of lending that is preferred by lending institutions in Kenya. It is preferred because it provides a means of mitigating the risk created by the relationship of a creditor and borrower.⁷²

The second challenge that film producers face in Kenya is the rampant piracy of their movies. There is rampant piracy of the movies produced even before they hit the market. These products are illegally obtained through various ways. In the beginning people would record movies in a theatre with a camera discreetly pointed at the screen, they would then make copies of this and sale. Alternatively, with the onset of technology, people rent or buy a DVD and from this they make several copies which they proceed to sell. This can easily be done with a regular computer. Another common method has been through internet distribution. In

objective of the film, the period that production of the film will take and the total cost of production among other things.

⁶⁹ This is a corporation under the Ministry of Information and Communication with a vision to promote a local film industry by ensuring the films created are of high quality and relevant, facilitates the provision of funding and investment for film projects. The commission was established a fund in 2008.

⁷⁰ Justin Edwards, ‘Building a Self-Sustaining, Indigenous Film Industry in Kenya’ (World Story Organization, 2008) 11.

⁷¹ Translegal ‘Collateral vs. Security < <https://www.translegal.com/great-divide/collateral-vs-security>> accessed on 23rd September 2015.

⁷² Financial Sector Deepening, ‘Cost of Collateral in Kenya, Opportunities for Reform (2009) 1 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf> accessed 23rd September 2015.

this case a DVD is stripped to a digital file. This file is then emailed to people or shared on websites for downloading.⁷³

Another way of illegally obtaining this audio visual work is through the illegal subscription to paying channels such as Zuku and DSTV. This can be done by tapping directly the wires of a service provider.⁷⁴ Also common is the illegal distribution of these channels by one individual who pays the service provider and proceeds to charge the people to whom he distributes the signals a small fee for the same. .⁷⁵

Therefore in order to hasten the development, the Kenyan film producers need ready access to funds. The only readily available asset to these producers is their intellectual property which is the film produced. So then how can the banking industry issue loans to these producers with a film as their only collateral?

This chapter will explain generally the meaning of collaterals and thereafter examine Collaterals most commonly used in Kenya in the Film and Television Industry

2.3 COLLATERAL

The Banking sector in Kenya comprises of 43 Banks and 1 Mortgage Financial institution. In order to mitigate risk, the sector largely relies on collateral.⁷⁶ Collateral ensures that the banks do not need to follow extensive legal claims to ensure the payment of their debts and the debtors do not borrow beyond their means of payment as the amount given to them is tied to the value of the collateral. Where collateral lending is not encouraged, the small businesses in turn are limited in their access to credit⁷⁷

⁷³ David Waterman, 'The Political Economy of Audio Visual Copyright Enforcement' (2003) 6.

⁷⁴ Ibid

⁷⁵ Trending in Kenya 'Illegal TV Operators Reap big from City Residents' < http://www.trending.co.ke/illegal_pay_tv_operators_reap_-196445186.html > accessed pm 31st July 2015.

⁷⁶ Mary Kambua, Martin Wafula , 'Collateral Lending: Are there Alternatives for the Kenyan banking Industry' (2012) Kenya Banker Association working paper 9 <

http://www.kba.co.ke/img/pdf/Working_Paper_WPS_03_12%5B2%5D.pdf > accessed 23rd September 2015

⁷⁷ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 1 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

2.3.1 Basic Elements of Collateral

In order for collateral to exist the legal and operational environment must be such that one can create a collateral, perfect this collateral and enforce it in cases where the borrower defaults.⁷⁸

The Creation and Perfection of collateral occurs when a borrower transfers his interests in a property to a lender in exchange for a loan. The lender upon the transfer acquires certain rights in respect to the possession and the right to sell the property upon the default of the borrower in order to recover his debt. The lender therefore perfects his security interest by registering that security interest and in this way he ascertains the interests created. The property in question is usually immovable property, assets or chattels.⁷⁹

Where the borrower defaults the lender can enforce his interest in the following ways, In the case of immovable property, he can exercise his statutory power of sale where the property is sold either through a public auction or a private auction to recover the money. Alternatively the lender can also seek a judicial sale. In the case of assets and chattels a receiver will be appointed to manage the asset.

This means that the law should allow for the creation of a wide variety of collateral that can be accessed by many people in Kenya, it should allow for the perfection of this collateral by lenders and it should offer lenders a Speedy but affordable way to enforce the security interest. It should further offer easy access of information in regard to the security to both lenders and debtors. The intention is to ensure that the relationship between the debtor and lender is governed by accountability, transparency and accuracy of all information as well as a predictable legal mechanism in regard to the enforcement and recovery of debt.⁸⁰

⁷⁸ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 2 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

⁷⁹ Ibid 10.

⁸⁰ Ibid 2.

2.3.2 Types of Collateral in Kenya used in the Film and Television Sector.

Collateral in Kenya usually refers to Immoveable property, an asset or a chattel.⁸¹

2.3.2.1 Immovable property

This refers to land or even a building. It is the most common form of collateral in Kenya. This collateral is usually either a Mortgage or a charge. A Mortgage has been defined as the conveyance or assignment of land by the owner (Mortgagor) for a loan on condition that the land will be re-conveyed or reassigned back to the owner by the lender (Mortgagee) upon the complete payment of the loan and interest. In the case of charges, the borrower or owner of the land will be given the money without necessarily conveying the land to the lender however in case of default the lender can still recover his money and interest using the land as security.⁸²

To ensure this security is perfected, where the borrower is a company a search is carried out at the company's registry to confirm collateral of the same has not been created. Another search will be carried out at the Land Registry to determine ownership of the property. A valuation report on the property must also be prepared and presented to the lender. The borrower should provide proof of payment of all land rent and rates. This will include the production of the rates clearance certificate issued by local authorities, the land rent clearance certificate issued by the Land registry and where the land is agricultural the borrower must also present consent from the Land control Board. The application for registration is thereafter filed at the Land Office; this should be done within 21 days from the date of creation of the security instrument. If the borrower is a company the particulars of the collateral also have to be filed at the company registry as well. This should be done within 42 days from the date the collateral is created⁸³

To ensure priority, the charge or mortgage created must be registered both at the land registry and the company registry.

The challenge faced by this form of security is the increasing scarcity of land and the lengthy enforcement processes of the security where the debtor defaults.⁸⁴ There are also cases where land is owned communally and therefore it cannot be utilised by an individual

⁸¹ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform' (2009) 4 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

⁸² P Onalo: *Land Law and Conveyance in Kenya (Heinemann Kenya 1986) 127.*

⁸³ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 6 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

⁸⁴ Ibid 10.

to secure a loan.⁸⁵ According to the Community Land Act 27 of 2016, the rights of an individual on this land cannot supersede the rights of the community.⁸⁶ It is also very costly to secure a loan in this manner. There are various expenses that have to be considered including legal fee, stamp duty, valuation among others.⁸⁷ The process is also time consuming. In the cases of leases, lenders have a minimum number of years that the lease ought to have if it is to be used as a security. Usually it is 20 years.⁸⁸

Another challenge includes the laws that restrict how one can utilise the land. This includes the Land Control Act Cap 302 which makes consent from the Land Control Board a necessity in regard to deals relating to agricultural land. It provides specifically in section 6 (2) that any transaction including the mortgages dealing with any agricultural land under a land control shall be void unless the land control board for that area has given consent on the utilization of that land in that manner.

Where the borrower defaults, the lender has two ways of enforcing the security interest. He can either exercise his statutory power of sale through the private or public sale of the property in question. The lender can also apply to court for a judicial sale, that is, a court order to sale the property.⁸⁹

At the beginning before the occupation of Kenya by the Colonialist, Land was owned communally. All people had equal right in the Land and the size of Land utilized by an individual was proportional to the size of the family of that person.⁹⁰

In 1895, Kenya became part of the British East African protectorate. This meant that it was considered a district of Britain. However during this period the Colonialist could not acquire the native land as there was no law in place to allow or govern this acquisition.⁹¹

In 1897 the Colonialist introduced the East Africa Order in Council. This order enable the colonialist thereafter to introduce the Indian Land Acquisition Act of 1894 which made it

⁸⁵ Mitunga Omari, 'Credit Reputation as Collateral: A case of Improvement of the Legal Regime on Credit Referencing Kenya' (LLM thesis, The University of Nairobi, 2012) 57.

⁸⁶ Community Land Act no 27 of 2016, s 27.

⁸⁷ Mitunga Omari, 'Credit Reputation as Collateral: A case of Improvement of the Legal Regime on Credit Referencing Kenya' (LLM thesis, The University of Nairobi, 2012) 57.

⁸⁸ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 13 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

⁸⁹ Ibid 9.

⁹⁰ Valentine Wakoko, 'Evolution of Land Law in Kenya' <https://www.academia.edu/8972722/THE_EVOLUTION_OF_LAND_LAW_IN_KENYA > accessed on 3rd January 2015.

⁹¹ Ibid.

possible for these colonialist to own land for purpose of construction of the railway. However this act did not allow the colonialist to sell their bit of land. This was made possible through the East Africa (Acquisition of Lands) Order in Council. It should be noted that this land was owned by the crown. Therefore to ensure that settlers can acquire land the colonialist introduced the East Africa Land Regulation in 1897. This act made it possible for the commissioner who was the representative of the crown to sell land that was owned by the crown to the settlers. However, for all other land under the protectorate, the commissioner could issue 21 years Certificates of Occupancy which were renewable for another 21 years. Later the East Africa Lands Order in Council was introduced in 1901, this order defined crown land to mean all public land in the East Africa Protectorate. This order was given effect in Kenya with the introduction of the Crown Land Ordinance in 1902. Thus the commissioner could now sell the public land that was considered unoccupied and wasteland without the permission of the local tribes. This Ordinance was however amended by the Crown Land Ordinance of 1915. This 1915 order redefined crown land to include all land occupied by the natives. This in effect rendered all local tribes tenants of the crown. The order further gave the commission power to sell freehold titles and leasehold titles not exceed 999 years to settlers.⁹²

In 1930 the Native Lands Trust Ordinance was enacted to create separate reserves for the natives and Europeans this was done following a recommendation by the 1927 Hilton Young Commission that sought to address the protection of African interests in Land. In 1938 the Crown Lands (Amendment) Ordinance was introduced, This ordinance introduced the policy that all settlers were to occupy the white highlands which were very fertile land and the Africans were entitled to occupy the marginalized areas. Therefore Africans rights were restricted only to the reserve.⁹³

In an effort to improve agriculture and encourage large scale farming the colonial government introduced a new land policy that was known as the Swynnerton Plan after Roger Swynnerton who was an official in the department of Agriculture then, The policy aimed at improving agriculture by ensuring the land tenure methods are secure. The implementation of this policy was to occur by encouraging individualization of land. This was done through adjudication and registration of land. As a result all land became owned

⁹² Valentine Wakoko. 'Evolution of Land Law in Kenya' <
https://www.academia.edu/8972722/THE_EVOLUTION_OF_LAND_LAW_IN_KENYA> accessed on 13th
February 2015.

⁹³Ibid.

property either by individuals or communities. This in effect cemented ownership of land by individuals and therefore land became something that could be traded.⁹⁴

As Kenya was approaching independence, the Land Order in Council was passed in 1960. This order allowed Individual Africans to buy land in areas considered white highlands. The government during this period also bought land and settled many Kenyans. The Land Act Cap 300 was enacted in 1963. It further cemented the individual ownership and registration of land by Kenyans. The Rights of Kenyans to own property in Land was further entrenched in the 1963 Constitution of Kenya.⁹⁵

There were several laws that governed the use of land as a security .They includes the Repealed Indian Transfer of Property Act 1882: This was the first Act that provided for Land Mortgages in Kenya. It defined immoveable properties mortgages as the ‘the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, existing or future debt or the performance of an engagement which may give rise to a pecuniary liability’.⁹⁶ This act described the parties in a mortgage as well as the instrument in a mortgage inter alia. It further outlined the various types of mortgages which included a simple mortgage, a usufructuary mortgage, and a mortgage by conditional sale and an English Mortgage.⁹⁷ The Equitable Mortgages Act Cap 291 introduced equitable mortgages. This mortgage was created upon the deposit of documents of title to an immoveable property to a lender with the intent of creating a security.⁹⁸ It was revised in 2012. The Mortgages (Special Provisions) Cap 304 was also revised in 2012. This act makes it easier for mortgage finance companies to obtain possession of mortgaged property in order to exercise their power of sale or to appoint receivers where the mortgagor has defaulted.

The repealed Registration of Titles Act created legal charges. It defined the charge to mean ‘any charge created on land for the purpose of securing the payment of money’⁹⁹ The Act further addressed the process of discharge of charge and the instruments required in order to do so under section 46.

⁹⁴ Ibid.

⁹⁵ Valentine Wakoko, the Evolution of Land Law in Kenya’<
https://www.academia.edu/8972722/THE_EVOLUTION_OF_LAND_LAW_IN_KENYA> accessed on 13th
February 2015.

⁹⁶ Repealed Transfer of Property Act, 1882 of India, s 58.

⁹⁷ Ibid

⁹⁸ Equitable Mortgages Act Cap 291, s 2.

⁹⁹ Repealed Registration of Titles Act Cap 300, s 2.

The repealed Registered Land Act addressed other aspects of charges such as transfer of charges, the variation of charges, the right of redemption, charges remedies among other things.

The Land Act Cap 280 that repealed the Indian Transfer of Property act inter alia only addressed charges with no mention of Mortgages. This Land Act Cap 280 defined a charge to mean ‘an interest in land securing the payment of money or money’s worth or the fulfillment of any condition and includes a sub charge and the instrument creating a charge’,¹⁰⁰

This act goes on to outline the various types of charges that can be created and how they are created they include informal charge and Customary Charge. It also outlines the remedies available to the lender (chargee) in case of default by the borrower (chargor) as well as the discharge process

The Land registration Act no 3 of 2012 has also addressed a charge in land. It provides that a lender can charge a land or lease in order to secure his debt. Whether it is an existing debt or future debt. The charger in this transaction must indicate by signing on the charge instruments that he understands the implication of the charge. The act provides for the registration of this charge and it further emphasizes that this charge shall only act as a security and it is not a transfer.¹⁰¹

The Land Adjudication Act Cap 284 assists in determining the rights and the interest that are vested in the communal land. Under section 3(1) it states that the act is applied where a county government in whom that land is vested makes a request to have the land adjudged or where the minister decided that it is necessary to determine the interest of an individual in a piece of land. This act further lays out the processes of demarcation and the role that is played by those individual who have an interest in the land together with the roles of the various officers in this demarcation exercise. It has further addressed the timelines in regard to this demarcations and the person who will bear the cost of demarcation.¹⁰²

In regard to the trust land in Kenya, we have the Land Consolidation Act Cap 283 that governs transactions in regard to this special areas. The act goes on to provide on how

¹⁰⁰ Land Act 2012, s 2.

¹⁰¹ Land registration Act no 3 of 2012, s 56.

¹⁰² Land adjudication Cap 284, s 13-22.

rights in these special areas as determined, how land is consolidated, how the same can be transferred among other things.

However as demonstrated from the laws above, mortgage property in Kenya has been largely assumed to mean land. This can be seen from the various laws named above which when referring to mortgages often refers to it ‘immovable property’.

Property in the Film and Television industry in Kenya includes both Tangible and Intangible property. Tangible Property Includes real estate like land as well as equipment whereas intangible property refers to their intellectual property which is the film produced.

This intangible property has not been embraced as property in mortgages. The repealed company law cap 486 specifically recognized copyright mortgages and charges. In Section 96 (2) the act specified that the charges in this section included a charge on copyright or the license under copyright. In Section 96 (9) (a), the act recognized that the charge in this act also means mortgage. This repealed company Act on the further provided the manner in which a company could register the charge and the time within which this ought to be done as well as the penalties that were to be affected where a charge is not registered.

The current Companies Act no 17 of 2015 has similarly recognized the use of intellectual property in a charge. The act also provides that a charge includes a mortgage. The act further provides that this charge can be created on the company’s intellectual property.¹⁰³

The Banking Act has defined a Mortgage Finance Company to mean a “company other than a financial institution. The company loans money for purposes of the ‘acquisition, construction, improvement, development, alteration or adaptation for a particular purpose of land’ the repayment of which shall be secured by a mortgage or a charge”. The act goes on further to provide that the company however can still grant other types of credit facilities against other type of securities other than land. The Act however does not specify which properties fall in this category of ‘other securities’.¹⁰⁴

In the television and film industry, producers will use their own land as collateral to borrow money from banks for purposes of production.

¹⁰³ Companies No 17 of 2015, s 878(4)(i)

¹⁰⁴ Banking Act Cap 488, s 15.

2.3.2.2 Company Assets as Collateral

In the case of company a debenture is created that confers a charge on the company assets. The debenture can either be a specific debenture which is specific to a particular company asset or it can be an all asset debenture which creates a charge on all the assets of the company. The charge can either be a fixed charge or a floating charge. Floating charges refers to security interest over fungible assets such as livestock or crops. The Charge covers all the money borrowed by the company including interest. The debenture is registered at the company registry. Where the company has immovable property, a legal charge is created in addition to the debenture and the same is registered at the Land registry.¹⁰⁵

The Security interest must be registered to create priority and to ensure that collateral is not declared void.

Where the borrower default the lender will ensure a receiver is appointed to enforce the asset.¹⁰⁶ Upon the appointment of a receiver a floating charge crystalizes. The receiver takes over the management of the company from the directors. The challenge in this case is that more often than not the appointment of a receiver usually leads to the winding up of the company.¹⁰⁷

It should be noted that the repealed Companies No 15 of 2015 under section 878 provides for a list of security interest that must be registered which includes a charge for the purpose of securing any issue of debentures, a charge on immovable property or books debts of the company or on uncalled share capital or a charge on a copyright or a license under a copyright.

This form of collateral is common where the producer is a legal person in law. In Kenya there are several companies that produce films such as Blue Sky Films ltd, Avidex Media Production, Barney Multimedia to name just a few.

¹⁰⁵ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 7 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

¹⁰⁶ Ibid 10.

¹⁰⁷ Ibid 12.

2.3.2.3 Investment Securities as Collateral

This refers to the use of shares, bonds and stocks as collateral. This refers to securities that are being traded at the Nairobi Stock exchange. The advantages of using securities as a form of collateral is that in case the borrower default the bank can easily dispose of this collateral as the Nairobi Stock exchange provides a ready market. Secondly the Nairobi stock exchange has made it very easy to determine their value at any given time.¹⁰⁸

The Companies No. 17 of 2015 under section 878 (4) (d) which has set out the securities of a company has mentioned a charge for uncalled share capital.

The use of shares and bonds as security however, is not common in the film industry as majority of this production companies are new and they are not trading on the securities capital market.

2.3.2.4 Chattels Mortgages

Chattels have been defined to mean personal property.¹⁰⁹ An example is a car or furniture. The Chattel Act Cap 28 has defined chattels to mean any property that is moveable and transferable by delivery which does not include title deeds, negotiable instruments, and shares, securities of any government or local authority or debentures. Chattel mortgage involves the transfer of the mortgagees' rights, interest and title in the chattel to the mortgagor to secure the payment of the debt, on condition that the timely payment of the debt will make the transfer of the title, interest and rights void.¹¹⁰

Under Section 6(1) of the Chattels Act, the registration of the security instrument in this case should be carried out within 21 days from the date the instrument is created.

The Chattels Transfer Act only provides for the registration of the security instrument instead of the assets in question. This creates an opportunity where assets disappear or are hidden by their owners or the owners take other loans with the same chattels. The act under section 10(1) further provides that the instrument has to be renewed every five

¹⁰⁸ Mitunga Omari, 'Credit Reputation as Collateral: A case of Improvement of the Legal Regime on Credit Referencing Kenya' (LLM thesis, The University of Nairobi, 2012) 57.

¹⁰⁹ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 *Indiana Law Review* <

<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

¹¹⁰ Ibid.

years. This provision makes it very hard to determine which right has priority over the other.¹¹¹

This registration of this security instrument is carried out at the company's registry.

The advantage of this form of collateral is that the registration is quick.

In the film industries chattels such as cars and film equipment may be used as collateral to secure a loan.

2.3.2.5 Factoring and Invoice Discounting

These forms of collateral allow companies to get advances of cash due to them from customers rather than waiting for a customer to pay.¹¹²

Factoring refers to a transaction whereby a company sells its accounts receivable or invoice to a third party, that is another financial company referred to as a Factor. This Factor thereafter advances to that company a substantial amount of money usually about 80% of the invoice, thus it assumes the credit risk of accounts debtors. Once it collects the full amount from the company's customers it will pay the company the remaining balance minus a small fee for the risk it assumed. Therefore the Factor is usually more concern with the ability of the company's customer to pay and not the company itself. The factor in this case takes over the management of the accounts receivable because they own them, having bought them¹¹³

Unlike factoring where the lender buys the companies invoices, in Invoice discounting, the third party financial company lends the company money against your unpaid invoices. The borrowing company will still manage its own accounts receivables. Therefore the third party gives the company money which is a percentage of the total

¹¹¹ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform (2009) 15 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

¹¹² 'Business Finance Explained' < <https://www.gov.uk/business-finance-explained/invoice-financing> > accessed on 23rd September 2015.

¹¹³ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform' (2009) 27 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

outstanding accounts receivable. In return the third party company will demand to be paid a fee and interest of the money advanced.¹¹⁴

2.3.2.6 Credit Reputation

Credit reputation refers to the ability and the willingness of the borrower to pay back monies borrowed. With the introduction and the establishment of Credit Reference Bureau, credit referencing has been made possible. This Bureau collects mostly negative information. However currently in Kenya one cannot get a loan based solely on one's credit reputation¹¹⁵

Therefore a bank will examine the payment history of either an individual producer or a production company that is seeking to borrow money to confirm that they have a good reputation in so far as repayment of monies borrowed is concerned.

2.3.2.7 Asset Financing

This form of financing is common in small businesses and it provides a means through which these businesses can obtain the equipment's that they require in order to carry out their mandate. The business pays for this equipment in small bits as opposed to paying for them at once which they may not afford. The common forms of asset financing include Hire purchase and leasing.¹¹⁶

2.3.2.7.1 Hire Purchase

In this arrangement a hirer agrees to take goods at an agreed rental price with the option of purchase. The agreed rental price is inclusive of both the principle amount of the goods as well as interest. Thus once the agreement is signed the buyer takes the goods immediately. However the seller can take the goods in question upon default of payment by the buyer. This means that the ownership of the goods remained with the seller until the buyer pays the last installment. Until then the buyer only acquires

¹¹⁴ Ibid

¹¹⁵ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform' (2009) 28 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

¹¹⁶ Financial and Leasing Association 'Why use Asset Finance' http://www fla.org.uk/main-data-content/files/2014/redirect/765gitY/submo_776yietRWTREYYGUGIHI_87/Guide-to-Asset-Finance.pdf > accessed on 9th October 2015.

possession of the goods.¹¹⁷ This agreement is between a seller and a buyer as opposed to a lender and borrower. Thus the producer in this case buys filming equipment and pays for them in installments. The advantage here is that he will start using the equipment even before paying the full amount agreed on. This transaction is governed by the Hire Purchase Act Cap 507. The act established the registry of hire-purchase agreement and proceeds to name the various agreements under hire purchase, termination of these agreements and possession of the goods in case of default.

2.3.2.7 .2 Leasing

As is the case in hire purchase, in lease the buyer is allowed to use the goods for a period of time in return for regular payments. There are two types of leasing. There is operation leasing and there is financial leasing. In operation leasing the ownership of the goods never pass to the leasee. The Leasing Company will lease the goods for an agreed period of time to the lease and at the end of that period will either sell it as second hand goods or lease it to another person. In the case of finance leasing the leasing company will recover the full cost of the goods during the agreed lease period as well as charges. At the end of that period it will sell the asset to the lessee at a nominal value.¹¹⁸ In the film industry where the producer cannot afford new filming equipment, he has the option of leasing the same for the production of whatever film.

Therefore the advocate of asset financing is that it allows a producer to obtain equipment that he needs to produce a film without having to pay for this equipment at once. It is offered by several banks in Kenya. They include among other Barclays bank of Kenya, Co-operative Bank of Kenya, Central Bank of Kenya, National Bank of Kenya, Kenya Commercial Bank to mention a few.¹¹⁹

2.3.2.8 Warehouse Receipts

In this case one uses commodities stored in a warehouse, vault or depository for safe keeping as collateral to borrow money. The ware house receipt is produced as proof

¹¹⁷ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform' (2009) 28 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

¹¹⁸ Financial Sector Deepening, 'Cost of Collateral in Kenya, Opportunities for Reform' (2009) 28 < http://fsdkenya.org/wp-content/uploads/2015/08/09-11-24_Costs_of_Collateral_Study.pdf > accessed 23rd September 2015.

¹¹⁹ Ibid

of these commodities. They are proof that a particular commodity of a particular quality and quantity exist in a particular warehouse. The Equity bank is the first bank in Kenya to launch a financing scheme using warehouse receipts.¹²⁰

Conclusion

From the list of collaterals used in Kenya above, it is clear that Copyright is not one of them despite the fact that it is recognized as a form of property, and therefore an asset, in Kenya.

The banks in Kenya are yet to accept any form of intellectual property including copyright as collateral when it comes to obtaining a loan. This can be attributed to three factors. Firstly, the banks have not accepted or do not know how to realize a copyright where the borrower absconds and secondly the owners of these copyright do not view their copyright as property that can be used as collateral to obtain financing. This includes producers in film and television industries. Thirdly there are no laws that have adequately provided for the use of copyright as a form of collateral.¹²¹ The only law that has remotely mentioned copyright as a form of collateral is the Companies Act No. 17 of 2015 which provides under Section 96(2) that the copyright can be used as a charge and should be registered where it is used as such.

According to professor Xuan Thao Nguyen in order for Intellectual Property to be utilized as collateral, there must be two factors, firstly there must be a legal system that recognizes intellectual property which includes the protection and enforcement of Intellectual property and secondly there must be regulations that allow the use of intellectual property in collateralization, that is the commercial law must allow the use of intellectual property in financing. This two factors must there after intersect.

¹²⁰ Ibid

¹²¹ Nzomo, 'Challenges Facing Intellectual Property (IP) Audit, Valuation and Management in Kenya' <https://ipkenya.wordpress.com/2012/02/18/challenges-facing-intellectual-property-ip-audit-valuation-and-management-in-kenya/> > accessed on 9th October 2015.

CHAPTER THREE

REGULATORY AND ADMINISTRATIVE FRAMEWORK OF COPYRIGHTS IN KENYA AS AN ASSET

3.1 Introduction

Intellectual property and specifically, copyright, is considered property however as was demonstrated in the previous chapter, copyright is not used as collateral in Kenya. Lending institutions are not ready to accept this form of collateral as it is considered high risk.

However the presence of a proper legal and administrative structures, that ensure a proper perfection system, a proper and predictable priority system, that ensures creditors can timely enforce their rights over the collateral where a borrower defaults and that the collateral remains relevant and useful throughout the term of the loan, will encourage lenders to embrace the use of copyright as collateral in Kenya.¹²²

This chapter will look at the existing legal and administrative structures in Kenya and the challenges that these structures face in the recognition, protection and enforcement of copyrights as property. It will also briefly examine the commercial laws in Kenya and their role in the use of copyright as collateral. That these commercial laws, have not limited the types of collateral that can be utilized in Kenya. Moreover they have ensured that the interest of the creditor is protected always in case of default by the borrower.

In examining the regulatory structure we shall focus on the constitution of Kenya which recognizes copyright as property, we shall also examine the copyright act as well as the anti-counterfeit act that ensure the protection and enforcement of copyrights in Kenya.

3.2 The Regulatory Framework of Copyrights in Kenya as an Asset

3.2.1 Constitution of Kenya

The Constitution of Kenya under section 40(1) provides that every Kenyan has a right to acquire and own property. The constitution under section 40(5) further affirms that the Intellectual Property of the Kenyan people shall be protected, supported and promoted by the State. Therefore Intellectual Property in Kenya is considered as property. Therefore film which falls under copyright category of Intellectual Property is an asset in the laws of Kenya.

¹²² International Finance Corporation, 'Secured Transactions Systems and Collateral registries' (2010) <<https://www.wbginvestmentclimate.org/uploads/SecuredTransactionsSystems.pdf>> accessed on 13th June 2015.

3.2.2 Copyright Act

3.2.2.1 Historical Development of Copyright Law in Kenya

Professor Ben Sihanya in his article ‘Copyright Law in Kenya’ has traced back the development of the Copyright Law in Kenya. He begins with the Copyright Law Act No 3 of 1966. According to professor Sihanya this Act was an attempt by Kenya to separate itself from the English Copyright laws. This was done through the repeal of UK Copyright Act of 1957 at the time applicable in Kenya. This Act was later followed by the Copyright Act no 3 of 1975 which was enacted in an attempt to protect the Kenya Natural and Cultural heritage. The Copyright (Amendment Act) No 5 of 1982 was the genesis of the word ‘infringing copy’. According to the professor it is this Act that termed the importation of infringing copies as infringing. It also introduced injunctions and damages as remedies where infringement had occurred and proceeded to revise the penalty for infringement to one year in jail for those found guilty or in the alternative a maximum fine of ksh 10,000. The Professor further states that it was the Copyright (Amendment) Act no 14 of 1989 that introduced the word audio visual. Initially, the copyright act referred to cinematographic film. This act also revised the penalty for infringement of copyright from ksh 10,000 to a maximum of ksh 200,000. It also changed the imprisonment term from one year to a maximum of 5 years. The Copyright (Amendment) Act no 11 of 1992 introduced the Competent Authority which was appointed by the Attorney general to determine cases where a copyright owner had refused to issue a license without a good reason or with unreasonable terms. The Copyright (Amendment) Act No 9 of 1995 recognized the development of new technologies at the time and redefined copies to include the reproduction of a visual recording of a work in any form and the storage of such work by computer technology or other electronic means either permanently or temporarily. It is thereafter that Kenya enacted the latest copyright Act of 2001.¹²³ This act ensures the recognition, enforcement and protection of copyright as outlined below

3.2.2.3 Ownership and Protection

Audio visual work has been defined to mean the fixation of images on any physical medium from which one can reproduce a moving picture by any means. It may or may not have sound and it includes video tapes and videogames.

¹²³ Ben Sihanya, Copyright Law in Kenya <http://www.musicinafrica.net/sites/default/files/Copyright%20Law%20in%20Kenya%20-%20Prof%20Ben%20Sihanya_0.pdf> accessed on 25th August 2015.

Audio visual works are all eligible as copyrights under the copyright act Cap 130.¹²⁴

Audio Visual work are protected for 50 years from the end of the year that it was made or the year it was availed to the public or published, whichever that is the latest.¹²⁵

There are economic rights and moral rights under copyright. These economic rights can be transferred; moral rights cannot be transferred to another person. These moral rights include the right to claim authorship of a work and to object any distortion, modification or mutilation of one's work. Where the other feels that his work has been distorted in a manner that he considers dishonorable to his reputation the author can seek relief on this¹²⁶

The economic rights under copyright include the right to reproduce the original work or its translations, the right to Distribute, Communicate and Broadcasting the work to the public.¹²⁷

Where the work has been commissioned by someone else, or where the author of the work created it while under the employment of someone else, the copyright will vest in the person who commissioned the work or in the employer depending on the terms of the employment contract. Therefore the first ownership in audio visual works vests in the person who made the arrangements in the making of the film, that is, the author. However, where the work has been commissioned by someone else, or where the author of the work created it while under the employment of someone else, the copyright will vest in the person who commissioned the work or in the employer depending on the terms of the contract between the two parties.¹²⁸

It should be noted however that the owner of copyright in the audio visual works is the person in whom the economic rights are vested.¹²⁹

This copyright can be transferred to another by the owner through a testamentary disposition, operation of the law, assignment or a license.¹³⁰

¹²⁴ Copyright Act 2001 s 23(1).

¹²⁵ Ibid s 23(2) Copyright protection period depends on the work. According the Copyright Board Act, Literary, artistic work other than photographs and music is protected for 50 years more after the author's death. . In the case of sound recordings, it 50 years from the year the sound was made and for Broadcasts, its 50 years after the year the broadcast occurred.

¹²⁶ Ibid s 32.

¹²⁷ Ibid s 26 (1).

¹²⁸ Ibid s 31 (1).

¹²⁹ Ibid s 31 (3).

¹³⁰ Ibid s 33.

3.2.2.4 Infringement

Infringement occurs where a person violates the rights of a copyright owner by exercising these rights without the consent of the copyright owner.¹³¹

Infringement also occurs where a person violates any effective technical measures taken to protect the copyright. This violation occurs where an infringer created a mechanism that is used to commit infringement, or where one makes it possible for the public to access copyright material without leave from the copyright owner where an infringer interferes with the electronic management information on protected works¹³²

In the case of infringement, the copyright owner can be awarded damages or injunctions or to the delivery of the copies or the device promoting this infringement. The owner may also be paid an amount that is equivalent to the royalties that he would have otherwise received but for the infringing copies.¹³³ However, if an infringer admits the infringement but confirms that at the time of the infringement he had no knowledge of the work was copyrighted then no damages will be awarded by the court.¹³⁴

An infringer will be liable to pay a fine not exceeding four hundred thousand Kenya shillings or be imprisoned for not more than ten years or both where it is demonstrated that either he made infringing copies to sell, distributed or imported into the country infringing copies for purposes of economic gain or he has in his possession devices that assist in the creation of these infringing copies.¹³⁵ Where one sells or hires out these infringing copies or has more than one copy in his possession for purposes of financial gain then such an infringer will be liable to pay a fine of not more than a hundred thousand, or be imprisoned for not more than two years or both.¹³⁶

If the infringer is a first offender the act provides that he shall be fined up to a maximum of four hundred thousand or imprisoned for up to a maximum of six years. Where the infringer is repeat offender he may be fined up to eight hundred thousand Kenya shillings or imprisoned for not more than 10 years or both.¹³⁷

¹³¹ Copyright Act 2001, s 35 (3).

¹³² Ibid s 35(3).

¹³³ Ibid s 35 (4).

¹³⁴ Ibid s 35(5) (b).

¹³⁵ Ibid s 38(4).

¹³⁶ Ibid s 38(6).

¹³⁷ Ibid.

Where the infringer performs an audio visual copyright work in public without the permission of the copyright owner, he is guilty of an offense and he shall pay a fine not more than five hundred thousand or be imprisoned for not more than four years or both.¹³⁸

Half of all the fines recovered are paid to the copyright board and the other to the government.¹³⁹

The court may issue Anton Pillar orders where the copyright owner demonstrated that he has a course of action against an infringer and that the infringer has in his possession infringing copies which play a substantial role as evidence in the suit and lastly that there is a likelihood that the infringer may hide or destroy these copies before the same are discovered. This order can be awarded *experte*.¹⁴⁰

3.2.2.5 Enforcement

The Copyright Act Cap 130 is administered and implemented by the Kenya Copyright Board. This Board is established by the Copyright Act¹⁴¹. The Kenya Copyright Board is supposed to ensure that Kenya observes and implements all laws and international treaties that we are part of, monitor and issue licenses to Collection Management Societies, informs the public on all matters that involve copyright and to maintain a databank on authors and their works.

The Copyright Act Cap 130 requires that any audio visual work that is sold, rented out or distributed to the public for commercial purposes should have an authentication device fixed upon it. This device is prescribed by the Kenya Copyright Board.¹⁴²

Any person who sells any copyright work that he knows should have this device but does not have, is guilty of an offence and is liable to be imprisoned for 4 years or to pay a fine of five hundred thousand or both.¹⁴³ It is also an offense under the Copyright Act to be found in possession of these security devices or any instrument used in their creation. In case one is found guilty he will be liable to a fine of two million Kenya shillings or imprisonment of a term not exceeding three years.¹⁴⁴

¹³⁸ Copyright Act 2001,s 38(7).

¹³⁹ Ibid sec 38(10).

¹⁴⁰ Ibid sec 37.

¹⁴¹ Ibid sec 3.

¹⁴² Ibid sec 36(1).

¹⁴³ Ibid sec 36(6).

¹⁴⁴ Copyright Act 2001,s 36(8).

It is an offence to sell, hire, distribute or be in possession of or import infringing copies other than a copy made for private use. It is also an offence to be in possession of devices that assist in the making of infringing copies.

In an effort to enforce this act the Board is empowered to appoint inspectors who can at any reasonable time carry out an inspection to ensure that there is no infringement of protected works. The act further provides that the functions of an inspector can also be performed by a member of the board or the police.¹⁴⁵

It is only a police officer who can arrest a suspected offender without a warrant of arrest. The only other person who can arrest without a warrant is a member of the board and he can only do so where he has written authority from the board and can clearly be identified. These arrests are only supposed to be carried out where it is reasonably suspected that the person being arrested may not be found later to answer for his offences or that there is likely to be unreasonable delay or expenses.¹⁴⁶

3.2.2.4 Legal Challenges under the Copyright Act

The protection of the Audio visual copyright has however faced many challenges in the application of the laws that protect it. These challenges are discussed below.

Copyright Act has allowed utilization of another's copyright by the public under fair dealing. That is, one can utilize another's work provided it is for personal use. Therefore one cannot exercise these exclusive rights in these circumstances.¹⁴⁷ This encourages the public to copy the producers work provided it is for their own use. The copyright owner therefore does not benefit and neither can they prosecute individual users of their work. It should be noted however that in an effort to ensure compensation of copyright owner, the Copyright Act under Section 30 (6) and (7) provides for the blank tape media levy. This provides that a royalty that will be charged for the sale of audio visual equipment or media. This is charged against the manufacturers and importers of such material for commercial purposes. The section further provides that the amount levied will be determined by organizational representatives of these manufactures, importers or performers or by the copyright tribunal. The problem in this case is that currently in Kenya there are no organizational representatives of producers.

¹⁴⁵ Copyright Act 2001, s 39.

¹⁴⁶ Ibid, s 42.

¹⁴⁷ Ibid, s 26(1) (a).

Secondly, the law has created a way for broadcasters to infringe on the Producers copyrights. Section 26(j) of the Kenya Copyright Act provides that where an audio visual work has been made legally accessible to the public, then it can be broadcasted without infringing on the rights of the copyright holder provided that there is no licensed body that is the collection management body, which is concern with that particular work.¹⁴⁸ Therefore the law in this case has provided a window that can be abused by broadcasters. Thus in the absence of a Collection Management Body, the films produced can be broadcasted without compensation to the owners

Thirdly, there is no guideline and a limit on the exercise of moral rights. The law under Copyright Act Section 32(1) (b) provides that moral rights cannot be transferred and the owner can enforce them anytime, provided he feels his work has been infringed, distorted or modified. The law however has failed to provide limits within which this right can be exercised. This provides for the possibility where the exercise of these rights can interfere with the exploitation of the copyright by the owner of the copyright.

Fourthly, the Copyright Act is silent on contracts. The law has also not provided for contracts between the producers and the other participants in the movie production such as the artists, authors, producers, assistant producers, directors, casting agents, wardrobe experts, actors as well as specialists in sound, lights and special effects including stunt masters¹⁴⁹. Contracts guide not only the conduct and remuneration but also the rights that have been transferred in terms of their transfer or sale or assignment. Contracts can be used in the audio visual industry to ensure the complete exploitation of the film.¹⁵⁰ Other contracts that have been left out are contracts between the copyright owners and the collective management organizations. Therefore there is no clear guideline on the conduct of these organizations in regard to the copyright owners. For example, in case of conflict between the two how should it be addressed.

Further, the Copyright Act does not provider for deterrent minimum fines. Copyright Act under Section 38(4) provides that anyone who is guilty of making for sale, hire or distribution of an infringing copy or who has kept a device that is used to make infringing copies shall pay to the court an amount that does not exceed four hundred Kenya shilling or imprisonment

¹⁴⁸ Copyright Act 2001, s 26(j).

¹⁴⁹ Gerry Gitonga, 'An Overview of the Contracts and the Law on the Audio Visual Industry in Kenya', (2012 Kenya Copyright Board) 9.

¹⁵⁰ Ibid 10.

for at most ten years. Sec 35 (b) provides that any one guilty of selling or hiring an infringing copy or who has in his possession an infringing copy that is not for his personal use will be liable to a fine not exceeding one hundred thousand shillings or to a prison term not exceeding two years Sec 35(7) provides that where one who performs an audio visual work in the community commits an infringement in the copyright of the work, if found guilty he shall be pay the court five hundred thousand or a prison term not exceeding four years.

These provisions have not provided for the minimum sentence that an infringer ought to be liable for. This would have been a good deterrent to potential infringers.¹⁵¹

Moreover there are challenges in proving entitlement where a copyright has not been registered. The law does not make registration of copyright mandatory. This has made proving entitlement difficult and in turn makes enforcement of copyright by the right owners difficult especially where two parties are claiming ownership to the same film or production.

The law does not protect pre-production copyright. Thus it does not prevent the exploitation of a copyright work before its completion (see wolverine). This has therefore made it possible for the people to acquire copies of movies still under production and sell the said copies before they are completely produced thus denying a producer his due revenue.

3.2.3 Anti-Counterfeit Act

Piracy has been described as the ‘unauthorized commercial use of copyright’. In the case of films it occurs where an individual produces, distributes, sells or rents out copies of a film without permission from the copyright owner of the film or where such a person manufactures or distributed the devices that are used to perpetrate piracy.¹⁵² Piracy differs from Counterfeit in that counterfeit is the imitation of branded goods without the authority of the owner of such goods.¹⁵³

Piracy has been attributed to the poor distribution of the original films; a good example is jitu films which are present only in some supermarkets such as Uchumi therefore poor access of the public to these films encourages piracy of the same. There is also the advance in digital technology that has made it possible for individuals to create near copies of the original in bulk over short period of time. It has also made it possible to store a lot of these pirated

¹⁵¹ Anti-Counterfeit Agency, ‘Promoting and Protecting Intellectual Property in Kenya’ (International Chamber of Commerce) 17.

¹⁵² ‘The scourge of piracy, a menace to investors in Kenya’ (2011 Kenya Copyright Board) 3.

¹⁵³ Sarah Ochwada, ‘From Pirates with Love’ <<https://snolegal.wordpress.com/category/counterfeiting/>>accessed 14th July 2015.

movies in very small devices such as external disks and flash disks. The public in some areas has adopted the attitude that piracy is not a crime; rather it is a cheaper way of obtaining the latest movies. This explains the high number of shops selling pirated copies of films in town. The film industry is greatly affected by this because a lot of finances are utilized in the production of the movie; this includes equipment costs, actors salaries, directors cost among others. Therefore the producer will rely on the sale of the movie in the theatres as an initial return of the investment made and thereafter the sale of the Digital Versatile Disk to recoup the cost he has incurred in making the money. Piracy greatly diminishes these chances, further it reduces the revenue of the producer which in turn leads to the production of poor quality films. Hence discourages even potential investors in investing in the production of this film¹⁵⁴.

As a result producers as well as the investors in these film productions lose a lot of money. Other middlemen affected include the film distributors and retailers as they are often undercut by film pirates.¹⁵⁵

The act under Section 2 has defined a counterfeit act to include the act of making copies in violation of the rights of the author or related rights, without the authority of the intellectual property owner. The Act under the same section has defined intellectual property rights to include rights protected under the Copyright Act of 2001. Hence counterfeit can be described to include the infringement of copyright.

The act under Section 3 establishes the Anti Counterfeit Agency. The Agency is charged under Section 5(c) with the duty to fight counterfeiting and dealings in counterfeit goods. The management of this Agency is bestowed on a board. The Board has the authority under section 22 to appoint inspectors.

These inspectors so appointed have the powers under section 23(1) to inspect and search a car or premises which they have reasonable suspicion to believe houses counterfeit goods or it used for the production of these counterfeit goods. They can take any reasonable action to stop the productions of such counterfeit goods provided that the action taken does not involve the destruction of the evidence found. They can detain any counterfeit goods or mechanism

¹⁵⁴ 'The scourge of piracy, a menace to investors in Kenya' (2011 Kenya Copyright Board) 5.

¹⁵⁵ Ben Sihanya, 'Intellectual Property Confronts Counterfeiting in Africa: Protecting Innovators and Consumers in the Cyber Society' (2001) <<https://profiles.uonbi.ac.ke/sihanya/publications/intellectual-property-confronts-counterfeiting-africa-protecting-innovators-and>> accessed on 21st July 2015.

used in their production. They can arrest and detain anybody they suspect of engaging in such counterfeit acts provided the arrest is based on reasonable grounds where such a person refused to give them his name and address, or gives them false address and name. They do not need a warrant of arrest to carry out this function.

The Director of Public Prosecutions can appoint public prosecutors to prosecute the criminal cases under sec 30 of the Anti-Counterfeit Act.

The Act under Sec 32 makes it an offence to be in possession of counterfeit goods, to produce such goods in the course of trade or to sell, distribute, hire or display such goods for the purpose of trade. Such a person if convicted shall be liable to a prison term of 5 years or less or a fine not more than three times the value of the prevailing retail price of goods in the case of a first conviction. In the case of a subsequent conviction the offender will either be imprisoned for not more than 15 years or pay a fine of 5 times the retail value of the goods or both?

It is the holder of the copyright who will lay a complaint to the Executive Director under Section 33. The Executive Director can thereafter cause the inspection and search of a premises, vehicle or person where counterfeit productions or acts are suspected to be on going and he can detain such products as well and take appropriate action to stop the counterfeiting Act under section 33(3). The Executive Director, however, can still take this action on his own volition. Further under the Statute Law (Miscellaneous Amendments) Act 2014 the Executive Director is empowered to impose a fine not exceeding the amounts specified in the Anti Counterfeit Act of 2008 on any person who admits to having committed a counterfeit Act, provided that the person has admitted in the prescribed form and has requested the Executive Director to deal with such an offence. It should be noted however that an inspector can still take steps to stop counterfeiting on his own initiative provided they are within the laws provided under this act.

3.2.3.1 Challenges under the Anti Counterfeit Act

Whereas the Anti Counterfeit Agency has the power to carry out investigations where counterfeiting is suspected, the Agency has no power to prosecute these cases. As demonstrated, Section 30 (1) of the Anti-Counterfeit Act provides that the prosecutors are appointed by the Director of Public Prosecutors. Therefore the agency can only investigate these cases, detain the counterfeit products, take steps to stop the counterfeiting through the

inspectors however they cannot destroy the counterfeit items so detained without the appropriate court order neither can they prosecute these cases in court.¹⁵⁶

Further the Agency has no power to settle disputes arising out of counterfeit acts out of court. This would have gone a long way in reducing the time taken in litigation and the number of counterfeit cases presented to court as well as the cost of litigation of all the parties involved.¹⁵⁷

The Anti Counterfeit Act, like the copyright Act, has also failed to produce minimum sentences and a prison term is at the discretion of the court.¹⁵⁸

The Anti Counterfeit Act of Kenya does not provide for a remedy for those accused person who are exonerated. Moreover the accused person who in our case can be a producer does not have many opportunities to challenge the counterfeit claim before trial which would have the effect of reducing the time taken in litigation matters.¹⁵⁹

Lastly section 34 of the act provides that where an intellectual property owner suspects that there is a likely hood that infringing counterfeits may be imported into the country then he can inform the commissioner to detain or seize any of these materials. This section has only addressed the importation of counterfeit material and has not mentioned the exportation of counterfeit goods from Kenya or counterfeit goods that are on transit.¹⁶⁰ Further this section does not provide a procedure that will ensure that regular border inspection are carried out to prevent the import or export of counterfeit goods. Instead it has limited this inspection to an application by an Intellectual Property owner as explained above.¹⁶¹

3.3 Administrative Structures

These are the structures that have been put in place to assist in the effective administration of copyrights in Kenya. These institutions are used to ensure the proper implementation and

¹⁵⁶ Bracxide Ongola, 'Efficacy of Anti Counterfeit Laws in Kenya' (Research paper 2014) 30.

¹⁵⁷ Ibid 30.

¹⁵⁸ Ibid 43.

¹⁵⁹ Daniel Rosenholtz 'Issues with Anti Counterfeit Laws and Heightened International Intellectual Property Enforcement' (2011).

¹⁶⁰ Business Action to Stop Counterfeiting and Piracy, 'Promoting and Protecting Intellectual Property in Kenya' < https://ipkenya.files.wordpress.com/2013/03/valueofip_kenya_031113_lr.pdf > accessed on 2nd November 2016.

¹⁶¹ Business Action to Stop Counterfeiting and Piracy, 'Promoting and Protecting Intellectual Property in Kenya' < https://ipkenya.files.wordpress.com/2013/03/valueofip_kenya_031113_lr.pdf > accessed on 2nd November 2016.

enforcement of the law.¹⁶²They include the Kenya Copyright Board, the Collective Administrative Bodies, the Anti Counterfeit Agency, Judiciary and the police.

3.3.1 Kenya Copyright Board

The Kenya Copyright Board is established under section 3 of the Copyright Act. Its functions include the licensing and supervision of Collective Management Society, the maintenance of an effective data bank for authors and their work and administering the Copyright Act among others.¹⁶³ The board is empowered to appoint inspectors. In addition to the Inspectors the Copyright Act provides that a member of the police force or a board member can perform the Functions of the Inspector.¹⁶⁴ Police officers are permitted to arrest an infringer without a warrant of arrest where there are reasonable grounds. A board Member can also arrest an infringer without a warrant of arrest provided that he has approval from the board to do so where the infringement is committed in his presence.¹⁶⁵ The Act further provides that the Attorney General can appoint public prosecutors to handle the cases arising under this act¹⁶⁶

However Kenya Copyright Board faces the following challenges

3.3.1.1 Inadequate Manpower

Currently there are only five prosecutors who have been appointed by the Attorney General to handle the cases arising. There are only eight police men appointed as inspectors from the Kenya Police. This is not enough to ensure proper investigation and prosecution of copyright infringement in the whole country especially in the face of new digital technology that has made it possible to create near copies of the original film in such short notice, storage of the same is small devices such as the USB and the fast distribution of the same material.¹⁶⁷

3.3.1.2 WIPO GDA registration system

KECOBO was the first copyright office in Africa to install the WIPO GDA registration system with the intention to provide Kenya with a database for copyrights and to promote enforcement of copyrights.¹⁶⁸ This is an automated copyright registration process to

¹⁶² Amos Wako, 'Promoting Better Legislation and Enforcement of Intellectual Property Rights in Kenya' (2007)9.

¹⁶³ Copyright Act 2001, s 3.

¹⁶⁴ Ibid s 39.

¹⁶⁵ Copyright Act 2001, s42.

¹⁶⁶ Ibid sec 43(1).

¹⁶⁷ Marisella Ouma, 'Enforcement of Copyrights and Related Rights' (2012 Kenya Copyright Board) 3.

¹⁶⁸ Ibid 7.

administer and manage data registration. Among its functions is the search and discovery of a title or an author in the local registration database. So far the copyright board has provided a registration portal on their website in this regard for purposes of registration of copyright only. The information should be such that it allows for public confirmation of the registration of these copyrights. This enables sponsors to confirm copyright ownership before committing funds to producers. It should also include data on authors and copyright owners who have passed on.

3.3.2 Collective Administration of Copyrights

The board awards collective organization a certificate to practice once it is satisfied that it is a non-profit making organization, that its primary function is to gather royalties and that it has rules and regulations that ensure the protection of its members and that its accounts are regularly audited by external auditors chosen by the society *inter alia*¹⁶⁹ The copy of its audited accounts are supposed to be handed over to the board at the termination of every financial year together with a report of its activities in that year.¹⁷⁰ These organizations enforce copyrights and they issue licenses on behalf of the copyright owner.

3.3.2.1 Absence of a Collective Management Organisation for Producers

Although the law has provided for the establishment of a Collective Administrative Organisation for the various copyrights, currently in Kenya, all the collective management organisations either monitor copyrights in music or performance only. There is no organisation such as this for the producers and film makers in Kenya. Therefore producers are challenged when it comes to monitoring their copyright and regular collection of royalty.¹⁷¹

¹⁶⁹ Copyright Act 2001, s 46.

¹⁷⁰ Ibid sec 47.

¹⁷¹ Rosemary Waithaka, 'Reproduction rights society of Kenya' (Issue no 8 Kenya Copyright Board) 6
"Kenya Copyright Board has approved the following organisations, the Kenya Association of Music Producers (KAMP) which manages the rights in Sound recordings, the Music Copyright Society of Kenya (MCSK) which administers public performance and broadcasting rights in music. Members comprise of authors and composers, the Performers Rights Organisation on Kenya (Priska) manages the rights of performers in Kenya in both audio and audio visual works. Therefore members include performers and actors and the Reproduction rights Organisation of Kenya (KOPIKEN). This organisation is charged with the duty to manage rights in artistic works such as photographs and paintings, literary works and Musical works."

3.3.2.2 Lack of proper resolution mechanism between the Organization and its members

The Copyright Act provides for a means of resolution of any dispute arising between the Kenya Copyright Board and the Collective Management Society as well the disputes arising between the organization and the individuals it licenses. However it has not mentioned the disputes arising between the organization and its members (copyright owner)

Section 48 of the Copyright Act provides that a Competent Authority shall be appointed by the Minister to determine cases where board has refused to grant a certificate to an organization without a good reason or where the Organization has refused to grant an individual a license without a proper reason.

3.3.3 Police

As mentioned above the Police can be appointed as inspectors to carry out investigation in regard to copyright infringement. A policeman can enter and inspect any premises where he suspects infringement. Further he can detain anything that he suspect as the infringing copy or a device used in the infringement.¹⁷²

However copyright is a private right and as such the police cannot instigate an investigation on their volition. Therefore the owner of copyright has to approach the police to initiate investigation into the infringement.¹⁷³

Some of the challenges faced by the police in enforcement of copyrights in the film industry ignorance of the rights of a copyright owner in the film industry, most of the time the police are not well informed in regard to copyrights in general and the rights of the copyright owner, therefore they may not be able to identify infringement of copyrights right away.¹⁷⁴

There is also lack of proper storage facilities for confiscated items such as DVDs, or copying devices. This is may be used as evidence in court. Lack of proper storage facility may lead to the evidence being destroyed even before presentation to the court. Lack of storage space may also discourage the police from confiscating such infringing copies.¹⁷⁵

¹⁷² Copyright Act 2001,s 42.

¹⁷³ George Mbaye, 'Role of the Judiciary, Police and the Anti Counterfeit Agency in the Enforcement of Copyright and Related Rights' (2012 Kenya Copyright Board) 6.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

There is also the aspect of impersonation of these policemen. In this case people pose as policemen carrying out inspection on infringement of copyright and proceed to request for money from unsuspecting infringers so as not to ‘arrest them’.¹⁷⁶

3.3.4 Judiciary

The Judiciary plays a great role in the enforcement of the copyright Act as well as the Anti Counterfeit Act of 2008. It provides an avenue through which a producer can take action against those who infringe on his rights. The Judiciary protects the copyright owners in the film industry by ensuring that all infringers are punished accordingly. In this way they are able to deter would be infringers as well.

Challenges in the Judiciary include ignorance among the Judicial Officers. It has been argued that the courts often lack the expertise to handle copyright cases. Intellectual Law is technical and therefore it requires to be handled by an expert in Intellectual Property law. It has further been mentioned that in most cases this is a challenge as our courts are mostly handled by judges and magistrate who are general practitioners of law.¹⁷⁷

Secondly the Judicial process are long, these are not only time consuming but are costly as well therefore discouraging copyright owners from pursuing justice.

Lack of capacity is also another challenge. There are not enough Judicial Officers handling copyright Cases. This also contributed to the lengthy stay of infringement cases in court.¹⁷⁸

Therefore one can say that copyright is in fact recognized as an asset in Kenya and as such it should be possible for one to utilize it in the acquisition of funds. One way of doing this is through asset collateralization where the copyright is the underlying asset.

3.4 Commercial Security Laws in Kenya

In order to ensure the successful utilization of copyright as property in obtaining a loan there is need ensure that the legal environment is such that it supports the copyrights as well as the use of copyrights in the commercial practices that increase their value.¹⁷⁹ It is these commercial laws that establish the collateral that are acceptable to the lending institutions in Kenya and ensure that the investors are protected at all time in case of default by a debtor. In

¹⁷⁶ George Maye, ‘Role of the Judiciary, Police and the Anti Counterfeit Agency in the Enforcement of Copyright and Related Rights’ (2012 Kenya Copyright Board) 6.

¹⁷⁷ Bracxide Ongola, ‘Efficacy of Anti Counterfeit Laws in Kenya’ (Research paper 2014) 45.

¹⁷⁸ Amos Wako, ‘Promoting Better Legislation and Enforcement of Intellectual Property Rights in Kenya’ (2007) 16.

¹⁷⁹ Wipo, ‘Information on Intellectual Property Financing’ (Geneva Switzerland 2009).

Kenya we have several laws that make it possible to embrace the use of copyright as collateral.

The **Central Bank of Kenya Act 2015** establishes the Central Bank of Kenya which is charged with the responsibility to monitor and regulate lending institutions in Kenya. The Central Bank of Kenya is able to carry out this mandate with the assistance of several laws and regulations. These laws include the Banking Act and the Micro insurance Act.

The Central Bank of Kenya in its 'Risk Management Guidelines 2013' identifies collateral as a credit risk mitigating technique. It has defined a collateralized transaction as a transaction whereby a lending institution reduces the risk of credit exposure wholly or partially by use of collateral. The bank further provides that in order for lending institution to utilize collateral there all documents used must be legally binding and enforceable in a court of law to ensure there is legal certainty. The collateral that is used should be enforceable. This means that where the borrower default, the lender should have legal avenues that ensure he recovered his money in a timely and economic manner. The Act further provides that the lending institution should carry out regular checks to ensure that the collateral is still valuable before lending any money. The bank should also determine the borrower's ability to pay. This includes obtaining as much information as possible about the borrower's credit reputation.

To this end we have several laws that have been enacted. These include the **Banking Act Cap 488** which regulates the banking business in Kenya. The act encourages lending provided there is security. In **Section 15(2)** allows mortgage companies to issue credit facilities to a borrower using any form of security other than land? This creates the opportunity for one to utilize their intellectual property to secure such a loan.

The **Microfinance Act 2006** regulates and ensured supervision of microfinance businesses. The Microfinance (Amendment) Act 2015 section 2 further defines microfinance business to mean the use of the money held in a Microfinance bank deposit account or a current account by lending to small or micro enterprises with the use of collateral substitutes.

It is interesting to note all these acts have not limited the form of security or collateral to be used where an institution is lending money.

The **Mortgages (Special Provisions) Cap 304**, this act was supposed to ease the acquisition of mortgages by a mortgage finance company. However it restricted the mortgages in

question to immovable mortgages only and has tackled these mortgages in the context of a company only.

The **Insolvency acts** No 8 of 2015; this act ensures that all creditors of the debtor are able to recover their debts¹⁸⁰. The act has defined ‘securities’ to include mortgages. It has described a security agreement to mean an agreement whereby ‘property becomes the subject to a security for the payment of an obligation’. This act provides for the procedure or manner in which secured creditors can recover a debt from a person or a company that has been declared bankrupt.

The Credit Reference Bureau Regulations 2013 provides for the establishment and licensing of credit bureaus. The bureau prepares credit reports from the credit information in their data and they share this information with lending institutions. This allows lending institution access to the payment history of a potential borrower before they offer any loans on collateral.

Therefore the Kenya Commercial laws have not restricted the type of collateral that can be used by the lending institution. They have made it possible for these creditors to recover their debts where the borrower has failed to pay the money borrowed. Furthermore with the introduction of credit bureaus it is now possible for the lending institution to determine the borrowers’ capacity to pay.

Although there are laws and regulation that create a conducive environment for the adoption of intellectual property collateralization, the legal protection of copyright is still not adequate to ensure the complete protection, recognition and enforcement of copyrights in film which in turn will ensure that the income generated by these copyright is consistent and predictable making copyright in film a less risky asset and therefore a more attractive collateral and in turn enabling the banks create copyright mortgage backed securities.

¹⁸⁰ Insolvency Act No 8 of 2015,s 3.

CHAPTER FOUR

THE DEVELOPMENT AND PRACTICE OF COPYRIGHT MORTGAGES IN AMERICA

4.1 Introduction

America is an idea based economy; this means that Intellectual Property plays a great role in the economic development of America. According to Kevin Hasset and Robert Shapiro, American financial advisers, there are a great number of investors in intangible assets compared to investor in the traditional tangible assets. The value of intangible assets amounted to 14.5 million dollars in 2011. These assets accounted for about 40% of the America economic growth in the 20th Century.¹⁸¹

According to Brian Jacobs, the author of the article ‘Using Intellectual Property to Secure Financing after the Worst Financial Crisis since the Great Depression’, intellectual property in America was greatly embraced towards the end of the 20th Century. He identified copyrights as one of the main types of intellectual properties in America to be used as collateral, this is so especially in the film and television production industry.

It is this dominance in copyrights that led to the use of these copyright in financing. The American film industry adopted secured financing to acquire funds. In this case the lenders gave the producers money and in turn they were granted security interest in copyrights. Among the lenders include the Bank of America.¹⁸²

In regard to financing a film production, America and Kenya Film industry have one thing in common that is, the development of a film largely depends on the finances available. Often the finances come from private individuals or major production studios, such as Time Warner, Walt Disney or Fox universal or Sony, or are borrowed from other parties such as

¹⁸¹ Kevin Hasset and Robert Shapiro, ‘what Ideas are worth: the value of Intellectual Capital and Intangible Assets in American Economy’. < http://www.sonecon.com/docs/studies/Value_of_Intellectual_Capital_in_American_Economy.pdf > accessed on 14th February 2015.

¹⁸² Xuan-Taho Nguyen, ‘Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014’ (2015) 48 Indiana Law Review < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed on 14th February 2015.

banks as mentioned above. It should be noted that in both countries the government does not play a major role in funding movie production.¹⁸³

Therefore the use of copyright as collateral has made it possible for producers to acquire funds for the shooting and production of movies. Further it transferred the risk of receiving licenses and royalties to the investor. However, Brian Jacob is quick to point that the adoption of copyright as collateral in America was not without risk. The investors face legal risk in as far as the use of copyright is concerned. This refers to the risk of copyright infringement, enforcement and the expiry of contracts and rights. America has minimized these legal risks through copyright laws that protect copyright owners against infringers, they ensure that these copyright owners can enforce their rights and provide registration of copyrights ensuring priority. This in itself is an incentive to the investors in copyright.¹⁸⁴

Access to finances is among the reasons why America's Hollywood remains the world's largest movie production industry in the world. Hollywood movies remain popular both in and outside America.¹⁸⁵ America is greatly advanced in its utilization of copyright mortgages in the acquisition of Funds by producers and copyright owners in general.¹⁸⁶

It is for this reason and the fact that America is the only country that can boast of having successfully utilized copyright mortgages in the acquisition of finances since 1909 and continues to do so. Therefore the research has focused on America copyright law in order to closely examine the protection, infringement and enforcement of copyrights as provided by the copyright law. Therefore in this chapter we will examine the development of copyright mortgages in America and as well as the current copyright law with focus on the protection, infringement and enforcement of copyrights in America. We will also mention briefly the commercial law applicable in regard to the collateralization of copyrights in America

¹⁸³ Dayo Ogunyemi, 'Film Finance in Nigeria'

http://www.wipo.int/edocs/mdocs/copyright/en/wipo_ip_fin_ge_09/wipo_ip_fin_ge_09_7-main1.pdf.

>Accessed 12th November 2015.

¹⁸⁴ Brian Jacobs, 'Using Intellectual Property to Secure Financing after the Worst Financial Crisis Since the Great Depression' (2011) 15 Marquette Intellectual Property Law Review 449.

¹⁸⁵ Stanley Rosen 'Hollywood, Globalization and Film Markets in Asia: Lessons for China'

<http://isites.harvard.edu/fs/docs/icb.topic152447.files/rosen_Hollywood.pdf >accessed 21st November 2015.

¹⁸⁶ Jonathan Derek Silver, 'Hollywood's dominance of the movie industry: How did it arise and how has it been maintained?' (PhD Thesis, Queensland University of Technology 2007).

4.2 Historical Development of Copyright Mortgages in America

The Congress of America approved the first Copyright law in 1790. The Law addressed the issue of protection, infringement and remedies available to a copyright owner. It addressed the issues of transfer of ownership in a copyright. These areas were further refined in subsequent statutes.¹⁸⁷

Although the statutes then recognized intellectual property as property, it was not used as a form of security. During this period tangible personal property was used to secure a debt. In this case the owner of this personal property would transfer the title and ownership of the property to the person giving him the money. The title and the ownership would be transferred back to the property owner (debtor) once he paid the debt. This was Chattel Mortgage financing¹⁸⁸

The recognition of Intellectual Property as a form of property occurred after the American Revolution. This therefore meant that Intellectual Property could be used in Chattel Mortgage.¹⁸⁹

During the 19th Century, Copyrights among other Intellectual Property were used in Mortgagees. Congress in 1909 later passed a comprehensive copyright law that allowed copyrights to be mortgaged.¹⁹⁰ As technology advanced and developed so did the popularity of using copyright in mortgages. This was especially the case in the television and film industry.¹⁹¹

During this period there was no uniform commercial law, the situation was such that each state had its own commercial laws that governed securities in personal property, that is, property other than real estate. Thus in 1952, America adopted the Uniform Commercial Code in an effort to promote uniformity across the states. In 1962 this aim was realized with the adoption of the Official text of Article 9 of this Uniform Commercial Code. Article 9 ensured that there was no distinction between the security devices such as mortgages and pledges¹⁹². It covered all transactions that created securities in personal property.¹⁹³ This in

¹⁸⁷ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

¹⁸⁸ Ibid 513.

¹⁸⁹ Ibid.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

¹⁹² Ibid 525.

¹⁹³ Ibid

turn encouraged the use of intellectual properties in financing. The code did away with assignment of copyright such that in the new security transactions the borrower did not have to give away ownership of his copyright which meant that a borrower could continue to utilize the copyright in his own business. The code ensured that the lender was well protected without assignment of the copyright.¹⁹⁴ This code also addressed the issue of perfection of the copyright security against third parties¹⁹⁵ It was noted that a lender can perfect his security in both registered and unregistered copyright. In the case of registered copyright it was perfected through the registration of the security with the copyright office and where the copyright is unregistered, the lender perfected this security by following the standards set in the code as adopted by the various states.¹⁹⁶

Therefore with time copyright mortgages became popular both with private lenders as well as the United States Small Business Administration.

According to Leon Kaplan, the adoption of Copyright mortgages in America provided companies intending to produce a motion picture or a television production with no collateral save for their production, a means to acquire funds that assisted them in the production of this work.¹⁹⁷

4.2.1 Challenges that the Americans faced in the use of Copyright as a Security

Usually where a borrower had used his Copyright to acquire fund from lending institutions such as bank, these banks required that the copyright in question should be the collateral for the money borrowed. These lending institutions however faced many challenges in regard to these arrangement.

The adoption of copyrights as security brought with it the first challenge which was the need to determine priority. There was need to prioritize the right of the lender in the copyright over other creditors that the owner of the copyright in question may have. This was accomplished

¹⁹⁴ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review <
<https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

¹⁹⁵ Ibid 527.

¹⁹⁶ Aerocon Engineering Inc v Silicon Valley Bank, according to Professor Xuan, the Ninth circuit court held that 'There was no federal pre-emption of perfection of security interest in unregistered copyrights. Consequently if a copyright is registered, the recording of a security interest in the registered copyright is with the copyright office. If the copyright is unregistered UCC-9 filing system applies.

¹⁹⁷ Leon Kaplan, 'Literary and Artistic Property (Including Copyright) as Security: Problems Facing the Lender' <
<http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=2597&context=lcp&sei-redir=1&referer=http%3A%2F%2Fscse.google.com%2Fscse%3Fcx%3D000933248691480580078%3A57y4iyinbqe%26q%3Dcopyright%2Bas%2Bcollateral%2Bin%2Bamerica%26sa%3DSearch#search=%22copyright%20as%20collateral%20america%22>> accessed on 9th November 2015.

through the perfection of the security. The perfection of the security simply means the registration of the security in the right office where the lenders' right over the copyright will be recognized as higher than the rights of the other creditors of the copyright owner.¹⁹⁸ The challenge that arose in this case was how to determine priority where more than one person has registered a mortgage interest in the copyright. To deal with this, America made it mandatory that all assignments of copyrights must be registered within 6 months. Failure to do so made the assignment fraudulent against the subsequent mortgage. The copyright Act of 1909 later reduced this period to 3 months.¹⁹⁹

Second challenge was the fact that each state was governed by its own commercial laws creating lack of uniformity in regard to the creation and enforcement of securities. Therefore to solve this problem, the Uniform Commercial Code was introduced on 1952. This was adopted by almost all states. In this was uniformity in regard to copyright mortgages was attained across the United States of America.²⁰⁰

However, with the Introduction of the Uniform Commercial Code, there were now two laws that provided for the mortgage securities. The Uniform Commercial Code which was a state law provided for the registration of security interest in personal property. Personal property includes copyrights. The Code under article 9 provided that a security is registered simply by filing the financial statement with the secretary of state of the particular state. This financial statement should contain basic information of the collateral and the parties.²⁰¹ The Copyright Act, which was a federal law, provided under section 205 for the registration of copyright transfers. Transfer in this case also included copyright mortgages.²⁰² The registration of the same according to this act was to be done in the copyright office. . Therefore this far there

¹⁹⁸ Hornick John, 'Security Interest in Intellectual Property' <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=4c698bab-7284-48a2-a8bd-12e04b5bf9ef> > accessed on 18th May 2016 states that perfection of a security is simply the registration of a security interest which puts the creditors of the copyright owner and subsequent purchasers of the copyright on notice that there is another security interest. This perfection has the effect of ensuring that the registered security interest is held in high priority over the interest of the other creditors of purchasers. Article 9 of the Uniform Commercial Code provides for the security of personal property which includes copyright.

¹⁹⁹ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 Indiana Law Review < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

²⁰⁰ Ibid 525.

²⁰¹ Hornick John, 'Security Interest in Intellectual Property' <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=4c698bab-7284-48a2-a8bd-12e04b5bf9ef> > accessed on 18th May 2016.

²⁰² Ibid. According to Hornic, the copyright act has defined transfer to include 'assignment, mortgage, exclusive license or any other conveyance, alienation or hypothecation of the copyright'.

were two bodies of law that seemed to address the same thing, bringing about the challenge as to which law should be applied in the perfection of copyright securities.²⁰³

The matter was subsequently cleared by two case laws. The first one, *Peregrine Entertainment Ltd.*²⁰⁴ In this matter the creditor gave the debtor funds; he secured these funds with the copyrights of the films in the debtor's film library. To perfect these securities, the creditor thereafter filed the financing statements in three states but he did not register the security interest in the copyright office. Later the debtor opted to file a bankruptcy notice and a dispute arose as to whether the creditor had a security interest in the copyrights of the film. The court in this matter held that the interest of a lender in copyright can be perfected by the registration of this interest in the copyright office as provided by the copyright act because this registration serves as a constructive notice to all people. However this court ruling only tackled the applicable law in as far as registered copyrights were involved.

Thus, the fourth challenge that arose was in regard to the correct registration process of the copyright security created where the copyright is unregistered. In *Aerocon Engineering Inc v Silicon Valley Bank*, it was decided by the courts that where the copyright in question is unregistered then the security interest should be registered under the state law, that is, the Uniform Commercial Code, Article 9. In this case the debtor borrowed money from Silicon Valley Bank, the debt that was borrowed was secured by, among other things, the copyright in drawings and computer software. The bank thereafter filed a financing statement with the secretary of state of California which was the place the debtors were staying. After this the debtor filed for bankruptcy. Aerocon Engineering was the trustee and the court approved it to sell the debtors assets. There after Aerocon challenged the security interest in the Bank. The Ninth Circuit Court ruled that the Bank perfected its security when it registered the security interest in California. The court noted that the copyrights in this case were unregistered and therefore the registration of the securities created will not be governed by the federal copyright law, rather the state law on commercial securities will apply.²⁰⁵

Another challenge that came up was which court had the jurisdiction to order foreclosure on the mortgaged copyrights. Was it the federal court or the State Court? In the case of *Republic*

²⁰³ Hornick John, 'Security Interest in Intellectual Property' <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=4c698bab-7284-48a2-a8bd-12e04b5bf9ef> > accessed on 18th May 2016.

²⁰⁴ *Peregrine Entertainment Ltd*, 116 b.r 194 (Bank. C.D Cal 1996).

²⁰⁵ Xuan-Taho Nguyen, 'Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014' (2015) 48 *Indiana Law Review* < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

Pictures Corp versus Security First National Bank of Los Angeles, the court held that although the Copyrights are in fact a federal law matter the, the issue of foreclosure is a state matter and therefore the state law is applicable and it is the state courts that have jurisdiction when it comes to foreclosure in Copyright mortgages. This in effect made it clear that although copyright is a right granted under federal law, the application of commercial law remains within the jurisdiction of state laws.²⁰⁶

It should be noted that in the case of foreclosure where the secured property was tangible, the law provided that the creditor could repossess the property by seizing it peacefully or through a judicial court order.²⁰⁷ This is also the case in Kenya. In the case of copyright, seizing is not an option as the property in question is intangible. Hence a problem arose as to how the creditor can transfer ownership upon default to a buyer. What is therefore necessary is for the debtor to first execute and file a transfer of assignment of the foreclosed property before being advanced the money to ensure that in case of default the copyright automatically passes to the creditor? This question was a problem that was tackled in *Sky Technology v SAP*.²⁰⁸ In this case it was noted that the Uniform Commercial Code Article 9 made it possible to transfer ownership of Intellectual Property by operation of the law. The only requirement was that the lender should foreclose and purchase the property at a public auction in the manner provided under the article.²⁰⁹ This ensured that the chain of ownership from the borrower to the lender remain intact. In *Skytec v Sap, Ozro* executed an intellectual Property Security with Silicon Valley Bank and Cross Atlantic Capital Partners Inc. Silicon Valley Bank later transferred all its interests under this security to Cross Atlantic Capital Partners Inc. Thereafter Ozro defaulted and Cross Atlantic foreclosed on the Intellectual Property in question. It sold the property at a public auction and bought the same as it was the only bidder. It later sold these interests to Sky technologies. Some year later, SAP, infringed on this copyright and Sky technologies sued. SAP argued that Sky technologies had no legal standing to sue them in court as ownership in the Intellectual Property had not passed to them

²⁰⁶ Republic Pictures Corp v Security First National Bank of Los Angeles (9th Cir 1952). In this matter Pre em Pictures owned copyrights in the motion picture 'A Song for Miss Julie'. It used its copyright in this motion picture to take a loan from Security First National Bank of Los Angeles. Later it defaulted on the loan and the bank sued Pre em pictures in a Federal Court to foreclose the mortgage property, which ordered the foreclosure. Republic pictures was the then distributor of this film having entered a contract with Pre em Pictures. It sued the bank arguing that the bank had no title in the copyrights. It was held that federal courts have no jurisdiction when in the foreclosure of a copyright. This was under the state court.

²⁰⁷ Uniform Commercial Code 9 – 609, 610 provides that where a debtor defaults the creditor can take the secured property through a judicial process or without this process provided he does so peacefully.

²⁰⁸ Sky technology v SAP AG, 576 (Fed Cir.2009).

²⁰⁹ Uniform Commercial Code 9 – 609, 610.

from Cross Atlantic. The Federal Court decided that the Uniform Commercial Code allowed for the transfer of ownership of Intellectual Property provided that the secured party followed the procedure laid out in the Uniform Commercial Code. Therefore it held that Sky technology had acquired ownership of the property through the operation of the law. There was no need of a written agreement between the creditor and the debtor.²¹⁰

The Lenders in America also faced various challenges with the adoption of Copyrights in Secured transactions. Firstly there was the need to monitor closely the copyright in question and prevent infringement on the same. This cost of infringement was costly. There was also the risk of a security interest in an Intellectual Property being declared fraudulent. This was the case in *Aptix Corp v Quickturn Design System*.²¹¹ The court in this matter ruled that the creditor had created the security interest in anticipation of a ruling that would be decided against him. In this matter Mohsen founded the Aptix Company. In this company he was the majority shareholder, he issued unsecured loans to his company in an effort to improve it but this did not work. An infringement suit was later brought against him by his competitor. During this period he issued another loan to this company but this time he secured with the Intellectual Property of the company because he anticipated an adverse ruling against him in court. The court held that the creation of this security had been false as it was done in anticipation of a negative ruling against the company.²¹²

4.3 Copyright Law in America

Owners of Audio Visual works in America, like owners of audio visual work in Kenya, have also faced great challenges in the protection and enforcement of rights. These rights have been protected by means of the law as well as administrative structures as is demonstrated below.

²¹⁰ Xuan-Taho Nguyen, ‘Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014’ (2015) 48 *Indiana Law Review* ‘a secured party can expect that in the event of the debtors default, the secured party can become the owner of Intellectual Property collateral by operation of the law as long as the secured party properly disposes and purchases the collateral in accordance with article 9 of the Uniform Commercial Code’ < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

²¹¹ *Aptix Corp v Quickturn Design Systems Inc* 148 F (Federal Circuit 2005).

²¹² Xuan-Taho Nguyen, ‘Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014’ (2015) 48 *Indiana Law Review* < <https://journals.iupui.edu/index.php/inlawrev/article/view/18598> > accessed 14th February 2015.

4.3.1 Economic Rights under the Copyright Act of America.

As the case in Kenya, Copyright in America subsists automatically in original work of authorship. Thus registration is not required. The copyright must be in any physical form which it can be seen and shared. Copyright include amongst others, the motion pictures and other audio visual works.²¹³

Audio visual has been described; as “any works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers or electronic equipment together with accompanying sounds if any regardless of the nature of the material objects such as films or tapes in which the works are embodied”²¹⁴ Motion pictures on the other hand refers to “audio visual work consisting of a series of related images which when shown in succession impart an impression of motion together with the accompanying sounds if any”.²¹⁵

The copyright in cinematographic work vests on the producer by law. Therefore the other creators of the film such as the director and the authors of the script do not own the copyright therein unless there is a contract to the contrary.²¹⁶ Copyright can be owned to a legal person. Therefore film studios are considered copyright owners of their audio visual work.²¹⁷

The copyright owner has the rights to reproduce copies of his copyright work, to distribute them to the public by selling, leasing or renting them out. He can also perform his work or display the same in public, and he can derive other works from his own copyrights.

The American copyright, unlike Kenya Copyright Act, does not provide for moral rights with exception to visual arts, provided these visual works are not for hire.²¹⁸ Moral rights unlike the exclusive rights above are not passed on the person who acquires copyright from the author. Therefore there is no chance that the author might choose to use his moral rights to interfere with the exploitation of a copyright by the owner of the copyright. The idea here is to avoid a conflict between the author’s personal moral rights and the copyright owner’s or producers economic rights.²¹⁹

²¹³ US Copyright Statute (USC) 102.

²¹⁴ Ibid

²¹⁵ Ibid

²¹⁶ Sotiris Petridis, ‘Comparative Issues on Copyright Protection for Film in the US and Greece’ (2014) 234.

²¹⁷ Ibid

²¹⁸ 17 USC 106A.

²¹⁹ Sotiris Petridis, ‘Comparative Issues on Copyright Protection for Film in the US and Greece’ (2014) 284.

4.3.2 Transfer of Copyright

Transfer of copyright in America must be in writing and the owner of the rights or the person authorized to act on his behalf must sign the instrument of transfer. The instrument can be a conveyance, or memorandum of transfer or a note.²²⁰ The transfer is there after recorded at the Copyright Office.²²¹

4.3.3 Duration of Copyright

Generally copyright in America endures for the life of the Author plus 70 years after his death.²²² “In the case of two authors the copyright will subsist up to the life of the last surviving author plus 70 years. In the case of work made for hire the copyright will last for 95 years after the date of publication or 120 years after the date of its creation, whichever comes first.”²²³ Of interest is the fact that the Copyright office also maintains a register of authors who are dead. This assists in monitoring the duration of these copyrights. This practice is not carried out in Kenya

4.3.4 Protection of Copyrights

The American Copyright Act provides for the registration of copyright works. However it should be noted that a copyright owner will still receive protection of his work even where he has not yet registered the same.²²⁴ Once a copyright is registered, the owner is given a certificate of registration by the copyright office.²²⁵

The American Copyright law provides for the pre-registration of works that are prepared for commercial purposes. This registration is only allowed for work that is likely to be infringed before the authorized commercial distribution of the same such as a movie. This is not recognized in the Kenya Copyright Act. Copyright in Kenya is only for complete works.²²⁶ Pre-registration in America is carried out online. Before a copyright work is pre-registered it must meet the following conditions, firstly the owner must be preparing the work for commercial reasons, and secondly the work must be such that it has a history of infringement before completion. The most common group of copyrights affected by this type of infringement is the motion pictures with the movie of Wolverine being a good example. Pre-

²²⁰ 17 USC 204.

²²¹ Ibid 205.

²²² Ibid 302.

²²³ Ibid

²²⁴ Ibid 408(a).

²²⁵ Ibid 410(a).

²²⁶ Ibid 408(F).

registration makes it possible for the owner of a copyright to sue for infringement when the development of the same is ongoing.²²⁷

4.3.5 Infringement of Copyright and the remedies available

Infringement according to the USA copyright law occurs when an individual violates any of the exclusive rights available to a copyright owner. The legal or beneficial owner of any of the exclusive right can bring an infringement action against the infringer of his particular right. Where infringement of the copyright occurs the owner can seek a **permanent** or temporary **injunction** to prevent further infringement. Of interest to note is that where an injunction remedy has been issued by a court, this can be enforced by way of contempt of court by any court provided it has jurisdiction over the infringer. Therefore one does not need to go back to the court that issued the order for purposes of enforcement.²²⁸

Other remedies that the owner can seek include the impounding and disposition of the infringing materials, in which case the court impounds all the infringing copies and the equipment used in their creation and the records of manufacture or sale of these infringing copies. The court may thereafter issue an order to have all these items destroyed. The impounding order is usually given where one is seeking an injunction but has not yet received the same.²²⁹ The right to bring a civil infringement action is limited to the copyright owners who have registered their copyrights in America.²³⁰

Furthermore the copyright owner can also be awarded damages and profits for his losses and the profits that infringer had made in the distribution of the infringing copies.²³¹ Alternatively the owner of the exclusive right may also choose to be awarded statutory damages instead to a sum not exceeding 150,000 dollars if the infringement was intentional and not more than 200 dollars where the infringement was not intentional²³².

The court may choose to award the copyright owner additional damages where the infringer is an establishment. This would be twice the license fee that the owner of such an establishment would have paid up to three years.²³³ The courts may also choose to award full

²²⁷ Rich Stim, 'Copyright Registration and Enforcement' <http://fairuse.stanford.edu/overview/faqs/registration-and-enforcement/> accessed on 28th June 2016.

²²⁸ 17 USC 502 (a) (b).

²²⁹ Ibid 503(a) (1).

²³⁰ Ibid 411 (a).

²³¹ Ibid 504 (a).

²³² Ibid 504 (c).

²³³ Ibid 504 (d).

costs as well as reasonable attorney's fees.²³⁴ It should be noted however that some of these remedies are available to the copyright owner depending on when the registration of copyright was made. Thus any work registered before the infringement occurred entitled the owner to statutory damages and attorney fees. According to Rich Stim, a registered copyright owner can in fact recover up to ksh 150,000 dollars which is the statutory deduction without the need to demonstrate that he has lost a lot of money as a result of the infringement. This has the effect of encouraging more copyright owners to register their copyrights and deter would be infringers

The right to bring a civil infringement action is limited to the copyright owners who have registered their copyrights in America.²³⁵ This action should be brought in court within 3 years of the occurrence of the infringing act.²³⁶

Criminal Infringement occurs where a person commits infringement of the exclusive rights for the purposes of financial benefit or distributes the work that is meant for commercial distribution. This includes putting it on the internet. It is a criminal offence to put a copyright notice on copyright work that one does not own. This offense attracts a fine of 2500 American dollars.²³⁷ An infringer will be fined not more than 2500 dollars for removing the copyright notice on work that he does not own or makes false representation in the registration of a copyright.²³⁸ It also a criminal to make any false representations where one is making an application for the registration of copyright. If this occurs one will pay a fine of not less than 2500 American dollars. Criminal proceedings are supposed to be instituted within 5 years of the occurrence of the infringing act.²³⁹

4.3.6 Liability of State Officials and State entities

The American Act provides that State Officials and State entities who infringe on the rights of a copyright owner in their official capacity will still be liable for infringement and such a copyright owner can seek the above mentioned damages in court for such infringement. In this way the act has effectively protected copyright owners from unjust harassment from State officials.²⁴⁰

²³⁴ 17 USC 505.

²³⁵ Ibid 411 (a).

²³⁶ Ibid 507.

²³⁷ Ibid 506 (c).

²³⁸ Ibid 506.

²³⁹ Ibid 507.

²⁴⁰ Ibid 511.

Moreover the American copyright Act has expressly provided that where one imports into the country or exports out of the country copies of a copyright without the authority of the copyright owner commits an offence by infringing on the copyright owner's economic right of distribution. It remains an offence to import or export infringing copies as well.²⁴¹

Of interest is that the American Copyright Act provides that the Court may require the copyright owner who brings an infringement suit to inform everyone registered at the copyright office as having an interest in the copyright of the complaint and the suit in court.²⁴² In this way all those with an interest in the copyright will be kept informed, this includes banks in the case of registered copyright mortgages.

4.3.7 Mortgage Provisions

The copyright Act of America has first mentioned mortgages in its definitions to mean 'transfer of copyright ownership'. The Act has defined this to include 'the mortgage of a copyright or any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a non-exclusive license.

Section 28 of the American Copyright Act provides that copyright may be mortgaged by the proprietor through an instrument in writing. The proprietor must sign this instrument.

Section 30 of the same Act provides that the mortgage must be registered within 3 months of its execution, where the instrument was created in America or within 6 months where the instrument is created outside America. The registration is done at the copyright office. Failure to do so will make the instrument void against the subsequent mortgagee for valuable consideration without notice, whose mortgage has been registered.²⁴³

4.4 Administrative Structures of Copyright in America

4.4.1 Copyright Office

This office is charged with the duty to administer copyright law in America. However they do not instigate any prosecutions. It is up to the copyright owner to enforce his rights once the same has been infringed and he can do this by instituting a civil suit. Where an infringement has occurred and the same amounts to a felony or a misdemeanor then the matter will be prosecuted by the US Department of Justice. Further, the Federal Bureau of Investigation has

²⁴¹ 17 USC 602.

²⁴² Ibid 501 (b).

²⁴³ According to Leon Kaplan, although the section 30 talks of assignments only, it includes mortgages as it mentions '....any subsequent purchaser or mortgagee for valuable consideration....'

two units that investigate intellectual property offences. These are the Cyber Division that investigates crimes that involve digital and electronic works such as DVDs and they have the Financial Institution Fraud unit which examines all other crimes under Intellectual property. An individual suspecting infringement can report directly to the FBI office in their area or report the matter online.²⁴⁴

It should be noted that the Copyright Office of America has installed an electronic system that has made it possible for copyright owners to register their copyrights on line. This not only encourages copyright registration it is also time and money efficient.²⁴⁵

The copyright office is charges with the responsibility of keeping all the records in regard to all registrations of copyrights or recordation. All these records are open for public inspection. Any information can be availed to anyone at a fee.²⁴⁶

4.4.2 Motion Picture Association of America (MPAA)

Of interest to note is that in America there are organizations whose role is purposely to monitor and prosecute infringers. In the Audio visual industry for example the movie industries in America are represented by the Motion Picture Association of America. Complaints are made to this organization which then proceeds to investigate this complaints. The investigation is not limited to piracy of movies; the organization further investigates those individuals involved in the creation of devices that are utilized in piracy of movies as well as the circumvention of copyright protection devices. However the organization does not prosecute these matters. It is assisted in this by the enforcement agencies and the courts. The organization is further responsible in lobbying the congress to pass better laws that ensure better protection of copyrights in audio visual works.²⁴⁷

²⁴⁴ Copyright Office America, 'Copyright Infringement' < <http://copyright.gov/help/faq/faq-infringement.html>> accessed 31st July 2015.

²⁴⁵ Rich Stim, ' Copyright Registration and Enforcement' <http://fairuse.stanford.edu/overview/faqs/registration-and-enforcement/> accessed on 28th June 2016

²⁴⁶ 17 USC 705.

²⁴⁷ David Waterman, 'The Political Economy of Audio Visual Copyright Enforcement' (2003) 7.

CHAPTER FIVE

ADEQUACY OF THE LEGAL SYSTEMS AND STRUCTURES IN KENYA AND WHAT KENYAN CAN BORROW FROM THE AMERICAN COPYRIGHT ACT AND COPYRIGHT STRUCTURES

5.1 OBSERVATIONS

The American Copyright Law and the Kenyan Copyright Act have a lot in common. Firstly, as demonstrated from their history, they both developed as a result of the increased development in technology that allowed for faster creation of copyright materials. They both provide for a period within which a copyright owner is protected under the law. They have both recognized copyrights whether they are registered or not and in this way encouraged creativity and they have established an office that deals wholly with the registration of copyrights.

Further both legal systems encourage the application of the labor theory by ensuring that the copyright owners get what is due to them. Both legal system have recognized copyrights as property that belongs to the creator. Both Copyright Act have proceed to award these copyright owners specific rights in regard to their copyright creations which include the right to distribute, reproduce, display or broadcast these copyrights to the public. Both acts have allowed the copyright owner the right to transfer these interest for financial gain is it through an assignment or license among others. In this way the copyright owner has been empowered to gain from the copyright that he has developed as a result of this hard work. Both acts go a step further by ensuring that the copyright owner is in fact protected in his enjoyment of his rights. They have both identified infringement and provided punitive measures where there is a case of infringement in an effort to deter would be offenders. They have ensured that where a copyright owner suffers loss as a result of these infringement, they are awarded damages and compensated for this.²⁴⁸

The application of good faith theories can be seen in the development and the application of commercial laws in both America and Kenya. In both system these laws have made room for the adoption of copyright as collateral. They have addressed the relationship between the

²⁴⁸ 17 USC 204 205 302 408.

lender and borrower by laying down the procedure of debt recovery and in this way ensured that both the lender and the borrower are protected.

When it comes to information available to the lender about the borrower, lenders in Kenya still rely heavily on what the borrower provides hence collateral as a means of security of lenders remains popular. However it should be noted that Kenya has several Credit Reference Bureaus that offer an alternative means of information on the credit stators of a borrower.²⁴⁹

The difference in the American Legal System and the Kenyan Legal System in as far as these theories go, in light of copyrights ,is in the extent to which they have been applied. It is clear from that the America legal system has applied these theories to a greater extent than the Kenya legal System.

Firstly American Copyright Act has expressly provided for the option of copyright mortgages which is not the state in the Kenya Copyright Act.²⁵⁰

The American copyright act has gone a step further in protecting these copyright owners by introducing pre-registration which protects copyright work still being developed hence ensuring that the copyright owner will benefit from his finished product.²⁵¹

In the case of infringement and awards available to the copyright owner, in America Copyright, the copyright owner can also be awarded statutory damages, damages and profits for losses incurred, attorney fees and costs. He can also request for impounding and disposition of infringing copies. More over an infringer is fined 2500 dollars where they remove a copyright mark or falsely put a copyright work on copyrights that he does not own or where they make false representation when registering a copyright. The Kenya copyright act does not address this.²⁵²

American copyright act, unlike the Kenya copyright act, expressly addresses the liability of government entities in copyright infringement. It provides these government entities and officials will be held liable where they commit infringement.²⁵³

²⁴⁹ Licensed Credit Reference Bureaus, < <https://www.centralbank.go.ke/index.php/bank-supervision/credit-reference-bureaus/14-bank-supervision/85-licensed-credit-reference-bureaus> >accessed on 1st July 2016.

²⁵⁰ 17 USC 28-35.

²⁵¹ 17 USC 408 (f).

²⁵² 17 USC 502-507.

²⁵³ 17 USC 511.

Moreover the Copyright office in American collects information including information in regard to dead authors and these records are available to the public for their information therefore lenders can easily access information in regard to a copyright.²⁵⁴

There is also an agency that is the Federal Bureau of Investigation. It has two units that are dedicated to investigate and prosecute copyright criminal infringement. This has an effect of deterring would be offenders. Moreover, victims of this infringement can report the infringement in the agency officers or even online which is quicker and faster.²⁵⁵

In addition, in America there are film associations, such as the Motion Pictures Association of America, which not only investigates infringement but rather it goes further to lobby for better copyright laws that ensure protection of copyright owners at all times. In Kenya there is no existing organization that represents film producers. Therefore the producers have the responsibility to monitor any infringement individually which can be a lot of work.²⁵⁶

5.2 Conclusions

According to professor Xuan Thao Nguyen in order for Intellectual Property to be utilized as collateral, there must be two factors, firstly there must be a legal system that recognizes intellectual property which includes the protection and enforcement of Intellectual property and secondly there must be regulations that allow the use of intellectual property as a collateral, that is the commercial law must allow the use of intellectual property in financing. This two factors must there after intersect.

From the research we can see that the commercial laws in Kenya have provided room for the use of Copyright as a form of collateral by not restricting the types of collateral that can be utilized by the lenders in Kenya. Therefore copyright can be used as a mortgage in Kenya.

However Kenyan lenders have not recognized the use of copyright as a collateral because they consider it a high risk collateral²⁵⁷. Among the reasons given is that it is an intangible property thus in case of default on the part of the borrower foreclosure of the same can be a challenge in Kenya taking into account that the current foreclosure laws focus on the tangible nature of the property, seizure of an intangible property can be a challenge. More over because there is no law providing for the registration of copyrights mortgage in Kenya,

²⁵⁴ 17 USC 705.

²⁵⁵ Copyright Office America, 'Copyright Infringement' < <http://copyright.gov/help/faq/faq-infringement.html>> accessed 31st July 2015.

²⁵⁶ David Waterman, 'The Political Economy of Audio Visual Copyright Enforcement' (2003) 7.

²⁵⁷ Innokety Y Alekseev, 'Securitization of Intellectual Property', (Thesis, Stanford Law School 2002) 3.

perfection of the same is also a challenge and thirdly the copyright laws are not adequate to ensure the protection and enforcement of the copyright owner's rights. These owners face the constant threat of piracy and where the owners decides to enforce their rights in the court of law, the cases are often time consuming and expensive. Further the copyright office does not encourage copyright owners to register the same thus there is a risk that should the lender accept the copyright as collateral of the same, a third party may challenge the ownership of the borrower and the lender in turn risks losing the collateral. As a result the value of the Copyright in question drops .These difficulties in the protection and enforcement of copyrights have been enhanced by gaps in copyright law and challenges faced by the administrative structures charged with the duty to apply these laws, which gaps and challenges have been discussed in this research.

It is clear that, the current copyright law and structures are not adequate to ensure the protection and enforcement of copyright in Kenya. Copyright Laws must be improved to address the gaps that have been left out and the Structures must be set up in a manner to ensure efficiency in dealing with the infringement and enforcement of copyrights.

There are several proposals and recommendations which can be adopted in our legislation and Administrative to improve the enforcement and protection of copyrights as is discussed below.

5.3 Proposals and Recommendations to Copyright Laws and Administrative Structures

5.3.1 Copyright Act.

The copyright Act can be improved by the introduction of provisions that provide for a minimum fine and prison terms to deter would be infringers.²⁵⁸ The Copyright should also include a remedy of attorney fees where the copyright is registered as is the case in America. This may encourage more copyright owners to register their copyrights, this will in turn make it easy to determine priority of all copyrights at all times and it will ensure that the investors have an easy time to confirm the ownership of any copyright in a manner that is both time and cost effective. In regard to creation of copyright mortgages, the copyright act should also

²⁵⁸ Anti-Counterfeit Agency, 'Promoting and Protecting Intellectual Property in Kenya' (International Chamber of Commerce) 17 < <http://webcache.googleusercontent.com/search?q=cache:q4ODZM29iwAJ:www.iccwbo.org/Data/Documents/Bascap/International-engagement-and-advocacy/Country-Initiatives/Kenya/Value-of-IP-in-Kenya/+&cd=1&hl=en&ct=clnk&gl=ke> > accessed on 20th August 2015.

include a provision that recognises the creation and registration of copyright mortgages as is the case with the American Copyright Act.

Further there is need to protect the films that are still undergoing production. Therefore the Copyright Act of Kenya can borrow from the American Copyright laws and include provisions that protect the pre-production of movies to ensure that these movies are not pirated even before completion. As it stands the current Copyright Act only protects the completed movies or works of copyright.

The Copyright Act should also introduce provisions that guide in the utilization and enforcement of moral rights of an Author so as to ensure that the owner of a copyright is not prevented from its economic exploitation on grounds of moral rights. This provision is available in the American Copyright Act and it has ensured that a copyright owner can fully exploit his copyright economically without interference from the original author on grounds of morality.

5.3.2 Anti-Counterfeit Act

Like the Copyright Act, the Anti counterfeit Act should introduce minimum sentences in the case of counterfeits and ensure there is a mandatory custodial sentence for habitual offenders to deter offenders to reduce the discretion of the court in regard to the application of these offences. This is likely to deter more would be infringers.²⁵⁹

The Act provides that it is an offence to import or export out of the country counterfeit goods except in cases where the goods are for private use. Once again, this act like the copyright, has provided an avenue that can be abused by offenders and infringers of copyrights who will create copies of the movies under the guide of exercising the right to private use of this copyright. The act should either do away with this section or restrict the use of these copyrights in private use.²⁶⁰

Further the Anti- counterfeit act should introduce provision that clearly lay down or provide for the procedure and manner of carrying out regular border patrols to prevent the importation and exportation of infringing copies or mechanisms that can be used in assisting the public to infringe on the economic rights of a copyright owner. So that there are regular inspections at

²⁵⁹ Braxide Ongola, 'Efficacy of Anti Counterfeit Laws in Kenya' (Research paper 2014) 52.

²⁶⁰ Anti- Counterfeit Act, s 34.

the border for counterfeit goods. This will go a long way in deterring infringers from importing, exporting or using Kenya as a transit point for copyright materials.²⁶¹

In the same vein, the act should introduce provisions that will address the exportation of counterfeit copies of copyright materials or devices used in creating these counterfeit from Kenya as well as the use of Kenya as a transit point for such materials.²⁶²

Administrative Structures

5.3.3 Kenya Copyright Board

The Kenya Copyright Board should ensure that the public can access the automated copyright registration system that was introduced for purposes of confirmation of ownership and priority of copyright and not to restrict the same to mere registration by copyright owners. This registration should also include a list of living as well as dead authors as is the case with the American Copyright Office.

5.3.4 Collective Management Organization

In order to ensure greater management and control of the collective management societies, the Kenya Copyright Board should be empowered to order the organization to submit an audit carried out by an external party where there are complains based on credible information. It should also be able to disband the organizations where they have committed any gross misconduct.²⁶³

Further these Collective Management Bodies should have within their Management Structure a Dispute Resolution Mechanisms to solve disputes between the organisation and its members.²⁶⁴

More importantly Collective Management Society for producers in film and television industry should be established. This will go a long way in monitoring the copyright and collection of royalties and will ensure that producers are not exploited by broadcasters. Moreover this society should go a step further and lobby for better laws where necessary like the Motion Picture Association of America.

²⁶¹ Business Action to Stop Counterfeiting and Piracy, 'Promoting and Protecting Intellectual Property in Kenya' <https://ipkenya.files.wordpress.com/2013/03/valueofip_kenya_031113_lr.pdf> accessed on 2nd November 2016.

²⁶² Business Action to Stop Counterfeiting and Piracy, 'Promoting and Protecting Intellectual Property in Kenya' <https://ipkenya.files.wordpress.com/2013/03/valueofip_kenya_031113_lr.pdf> accessed on 2nd November 2016.

²⁶³ Edward Sigei, 'The History and the Future of Collective Management Societies' (Kenya Copyright Board 2011) 4.

²⁶⁴ Edward Sigei, 'The History and the Future of Collective Management Societies' (Kenya Copyright Board 2011) 4.

5.3.5 Anti-Counterfeit Agency

The Agency should be given the power to settle cases out of court where possible to ensure the expeditious conclusion of cases. It will reduce the backlog of cases in court. It will also reduce the cost of litigation for all parties that are involved.²⁶⁵ According to a report prepared by the Business Action to Stop Counterfeiting and Piracy (BASCAP) if the Anti Counterfeit Agency is allowed to settle matter out of court, to impose fines and destroy the infringing materials this will not only hasten the process of concluding this case but it will also provide the agency with means to acquire funds that will supplement its activities such as creating awareness in the society of piracy.²⁶⁶ The inspectors appointed by the agency should also be empowered to carry our prosecutions. This is because they have better knowledge of the cases and the evidence to be produced having carried out the investigation themselves. This will also ensure that the agency retains its autonomy at all times.

5.3.6 Judges and Policemen

The value of the copyright will increase greatly and will be more acceptable to lenders where they know that they can enforce their rights successfully and cheaply through judicial action. Therefore it is necessary to improve the judiciary that handles the infringement cases and the police who are charged with the duty to investigate this infringement.²⁶⁷ The Systematic and constant training of the Judiciary and the Policemen in copyright should be introduced to ensure the creation of highly specialised judges and policemen who understand Intellectuals Property Protection and enforcement.²⁶⁸ This will enable have judges, magistrates and police men who are experts in intellectual property and specifically in copyrights. This is because as has been mentioned before, intellectual property is a highly technical and may require specialised knowledge to be effectively administered by the judiciary and the police.

The number of prosecutors and policemen who carry out investigation where infringement is suspected should be increased to improve prosecution of cases and ensure proper and thorough investigations are carried out. Alternatively a police unit specialised in Intellectual Property cases can be set up.

²⁶⁵ Bracxide Ongola, 'Efficacy of Anti Counterfeit Laws in Kenya' (2014) Research paper.

²⁶⁶ Business Action to Stop Counterfeiting and Piracy, 'Promoting and Protecting Intellectual Property in Kenya' < https://ipkenya.files.wordpress.com/2013/03/valueofip_kenya_031113_lr.pdf> accessed on 2nd November 2016.

²⁶⁷ Bracxide Ongola, 'Efficacy of Anti Counterfeit Laws in Kenya' (Research paper 2014) 34

²⁶⁸ George Mbaye, 'Role of the Judiciary, Police and the Anti Counterfeit Agency in the Enforcement of Copyright and Related Rights'(2012) Kenya Copyright Board 7.

5.4 General Recommendations

Producers should be encouraged to use digital technology in their work to fight piracy.

Section 36 of the copyright Act provides that the every audio visual recording made available to the public either through selling, lending or distribution shall have authentication device. The section goes on to state that the authentication device will be prescribed by the Board. Therefore in line with this the Board developed the Anti-Piracy Security Device (APSD). This comes in the form of a bar code or a hologram which is fixed on the audio visual work such as the DVD. Producers should be encouraged to invest in such devices to deter infringers.²⁶⁹ More over the price of this authentication device was reduced to ksh 4 from ksh 10 so that the price of the device does no become a stumbling block in the fight against piracy.²⁷⁰

There should be more awareness made on the importance of protecting the copyright in film among Kenyan Producers, the public and the administrative bodies charged with the mandate to protect and enforcement these rights. For example KEKOBO has held several workshops and seminars to sensitize the right holders, police inspectors in regard to copyrights. Other institutions should jump on board as well.²⁷¹ This has the effect of increasing the knowledge for these administrators and producers on how best to protect and enforce these copyrights.

Further Film producers should be encouraged to produce more movies with story lines that most average people relate to. Use the available technology to shoot and edit these simple movies, use local actors to reduce cost and use local traders to distribute the films at prices that compete with prices of pirated copies. This will do away with pirate's copies as people will prefer to buy the original²⁷². In other words the original movies will be now have competitive prices like the pirated copies. As demonstrated above there are several structures that administer copyrights. These structures however do not have a proper way of communicating or coordinating with each other. In order to fight copyright infringement these structures must work together, coordinate and share information regularly. Hence the proposal that Inter-agency should be formed to enhance the protection and enforcement of Intellectual Property in Kenya should be encouraged.

²⁶⁹ Marisella Ouma, 'Enforcement of Copyright and Related Rights' (2012) Issue 7 Kenya Copyright Board 4

²⁷⁰ Legal Notice no 103, 1st August 2011.

²⁷¹ Amos Wako, 'Promoting Better Legislation and Enforcement of Intellectual Property Rights in Kenya' (2007) 18.

²⁷² Sarah Ochwada, 'From Pirates with Love' <https://snolegal.wordpress.com/category/counterfeiting/> accessed 14th July 2015.

This Inter -agency will comprise of the four main agencies under Intellectual Property that's Kenya Copyright Board (KECOBO), Kenya Industrial Property Act (KIPI), Anti Counterfeit Agency who will there after form an Inter-Agency Intellectual Property Protection and Enforcement Strategic Plan. The plan will aim at introducing into the society a culture that recognised the importance of Intellectual Property in promoting innovation and improving Kenya's economy generally. It will do this through the training and creation of general awareness of various groups on Intellectual Property such as the police inspectors, judges, film producers, actors among others, through promoting and encouraging innovation and creativity in Kenya and through the proper enforcement of Intellectual Property in Kenya. It will also go a long way in increases coordination in the fight against copyright infringement.²⁷³

5.5 Proposals and Recommendation on the Commercial laws in Kenya

5.5.1 Movable Security Rights Bill 2016

As mentioned earlier, the only act that specifically mentions the use of copyrights in a mortgage transaction is the Companies Act No17 of 2015. The other commercial laws mentioned have created room for the utilization of copyrights as a mortgage but have not made direct reference to it. It can be mentioned therefore that the Kenya Law Reform Commission together with the Attorney General and Department of Justice have developed the **Movable Security Rights Bill 2016**. This bill seeks to promote the capacity of people and encourage access of finances with the use of moveable assets by ensuring there is consistency and predictability in the utilisation of moveable assets in secured financing.²⁷⁴

The bill has defined 'moveable property' to include intellectual property. Further it has defined intellectual property to include copyrights as defined in the copyright Act.²⁷⁵ The bill further provides, under part II as to how a security agreement will be created and what it will contain in order to create a security agreement. Under part IV under part V it established a registry where notices relating to the created security rights will be registered. This information will thereafter be available to the public. The information in this notice will

²⁷³ VNzomo 'The Case for an Inter Agency Approach to Intellectual Property Protection and Enforcement' <https://ipkenya.wordpress.com/2012/08/07/the-case-for-an-inter-agency-approach-to-intellectual-property-protection-and-enforcement/> accessed on 23rd July 2015.

²⁷⁴ Moveable Property Security Rights Bill 2016, s 3

include the type of collateral in question, the period of effectiveness of this registration as well as the creditor in question among others.²⁷⁶

Most importantly the bill has further tackled the issue of priority and provides that the creditor who registered first will have priority over the subsequent creditors of the same movable asset.²⁷⁷ It has further laid down the various rights of the parties in the security agreement at different stages of the security agreement including termination. Under Part VII the act has tackled the issue of enforcement of these rights upon the default of a debtor.

5.5.2 Lenders

Although the bill mentioned above will go a long way to encourage the adoption of copyrights in films as assets that can be used as a collateral by lenders. The lenders also must play a role in the adoption of these copyrights in financing.

Firstly they must all work together to set up a credible institution that will carry out the valuation of the copyright in question. As mentioned by Vzomo, valuation is a necessary step in any security agreement as it enables the lender to determine the value of the asset in question before committing any funds to the debtor in question and therefore it will be a necessary step to be considered if the bill mentioned above is assented.²⁷⁸

Lenders in a copyright mortgage also face a commercial risk. This means that there is a chance that the copyright in question may lose value during with time providing the possibility that should the debtor default the lender may not be able to recover his monies worth by the foreclosure of this mortgage. To deal with this possibility it has been proposed that the lender should encourage the creation of copyright portfolios which are then used in copyright mortgage to secure finances. This portfolio will therefore consists of several films instead of one to ensure that at all time the value of the copyright mortgage is equivalent to the finances advanced to the debtor.²⁷⁹

²⁷⁸ Vzomo, 'The Dawn of Intellectual Property Financing in Kenya' < <http://blog.cipit.org/2016/08/08/the-dawn-of-intellectual-property-financing-in-kenya/#more-5125>> accessed on 1st November 2016.

²⁷⁹ Innokety Y Alekseev, 'Securitization of Intellectual Property', (Thesis, Stanford Law School 2002) 3< <http://law.stanford.edu/wp-content/uploads/2015/03/AlekseevInnokenty2002.pdf> > accessed 3rd November 2016

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Mortgages (Special Provisions) Cap 304

Land Act Cap 280

US Copyright Statute

Uniform Commercial Code of America

Regulations

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