nfvf

national film and video foundation
SOUTH AFRICA

an agency of the
Department of Arts and Culture

South African Cultural Observatory National Conference Presentation

16-17 May 2016

Contents

Enabling Legislation

- National Film and Video Foundation Act 73 of 1997 as amended by the Cultural Laws Amendment Act 36 of 2001.

- NFVF is a Schedule 3A Public Entity in terms of the PFMA.

- Section 3 of the NFVF Act sets out mandates as follows:
  - ✓ To promote and develop the film and video industry
  - ✓ To provide and encourage the provision of, opportunities for persons, especially from disadvantaged communities, to get involved in the film and video industry
  - ✓ To encourage the development and distribution of local film and video products
  - ✓ To support the nurturing and development of and access to the film and video industry
  - ✓ To address historical imbalances in the infrastructure and distribution of skills and resources in the film and video industry

Unique Value Proposition

- Leader
- Enabler
- Development funding
- Training
- Leveraging production funding
- Facilitating international productions
- Global exposure and positioning

Vision & Mission

Vision:

To be a leader towards a sustainable audio-visual content* industry that represents the nation's aspirations and celebrates our diversity.

Mission:

To collaborate with all stakeholders to enable the development and promotion of a transformed and thriving South African audio-visual content industry.

** Audio-visual = All film (content transmitted through various platforms, e.g cinema, television, online, and other digital means), television, etc. excluding Music Videos, Reality TV, adult content, etc.*

Objectives of the Study

The NFVF commissioned Deloitte to research and determine the **economic benefits of the South African Film Industry.**

Calculation of Economic Indicators:

* **Size** of the industry;
* **Number of companies** that are doing business in the industry;
* Number of **individuals employed** in the industry (permanent employees and freelancers);
* **Direct and indirect taxes** that the industry pays; and
* The **economic multiplier effect**.

Full **value chain analysis** of the South African Film Industry.

Scope of the Study

The scope of the study :
* Films – Definition used: **feature films, documentaries, TV series, TV films, animation series and animation films**.

* Films that were produced during the period **1 January 2012 to the 31 December 2012**;

* **Legitimate** film project distribution; and
* Only films that conducted either all or part of their production within **South Africa**.

Definitions: Value Chain

Pre-production → Production → Post-production → Distribution

Word	Definition
Pre-Production	The cost of development, funding and shoot preparations for the film.
Production	The costs incurred to shoot the film, including stock footage. In the case of animation, the actual animation and programing costs incurred to complete the film.
Post-production	The costs incurred to transform the footage (digital or film stock) into the finished film.
Distribution	The costs incurred to release and promote the finished film across cinema, DVD, CD, video-on-demand ("VOD"), mobile, online and TV platforms.

Film Industry Online Survey Results: Value and Cost Breakdown

Value Chain Stage	Estimated Size (QSAPE) ZAR	% of Total
Pre-Production	18 429 441	11%
Production	128 094 091	73%
Post-production	23 910 676	14%
Distribution	4 127 035	2%
Total Industry	**174 561 243**	**100%**

The online survey indicated that the **Production Stage** of the value chain is significantly dominant over the other stages.

Total average direct taxation paid per the online survey was **19%** of total production cost.

Rand Value and Cost Breakdowns of the Value Chain

Direct Impact | Value Chain Spend +  + Value Chain breakdowns & SIC Codes

Value Chain Stage	Estimated Size (QSAPE) ZAR	% of Total
Pre-production	32 490 088	3%
Production	1 111 459 780	89%
Post-production	48 420 962	3%
Distribution	63 190 000	5%
Total Industry	**1 255 560 830**	**100%**

The total FTE jobs created for the period were **15 000 direct jobs**.

Executive Summary

Key findings from this research show that in 2012 the South African Film Industry:

* Contributed R3.5 billion to South Africa's GDP (both direct and indirect spend);
* Created over 25 175 Full Time Equivalent jobs;
* Earned over R670 million for the South African Revenue Services ("SARS");
* Encompassed over 2 500 direct service providers;
* Delivered an economic multiplier of 2.89, i.e. for every R1 spent in the industry, another R1.89 was generated within the South African economy.

South African GDP and Multiplier

The direct, indirect and induced GDP impacts result in a total GDP (at factor cost) multiplier of 2.89.

A multiplier of 2.89 implies that for every R1 spent in South Africa on activities related to the production and distribution of South African films the economy receives an additional R1.89 in terms of value added benefits.

South African GDP – Has there been growth?

The annual GDP figures show that there has been **on average 14% growth per annum in total GDP contribution** by the South African Film Industry to the South African economy over the last 5 years.

South African Job Creation

Using the DTI information and the SAM model results we can conclude that the South African long-form film industry generates an estimated **25 175** (15 210 + 9 965 = 25 175) FTE jobs per year.

- Project Gaullywood did not calculate direct and indirect FTE jobs.
- The **Western Cape Study in 2007** calculated 1 841 direct and 760 indirect longform jobs, i.e. a total of **2 600 FTE jobs**.
- Since the Western Cape and Gauteng are still the chosen provinces for the film industry it is highly probably given that there has been significant job creation as **nationally there are now 25 000 FTE jobs** created per annum.

Conclusion Based on Economic Indicators

The South African Film Industry contributes R3.5 billion to South Africa's GDP and over 25 000 jobs per annum.

It is not a significant industry when compared to many of the primary, secondary or tertiary industries in South Africa.

However, given that:

* The multiplier of 2.89 puts the South African Film Industry at mid-range when compared to 99 other industries; and
* In terms of government support, it more than pays for itself with a delivery back to the SARS of more than R670 million (R420 million more than an estimated Film Incentive of R250 million paid out in 2012);

It appears that it is a worthwhile industry to invest in and grow.

Multiplier Comparison – Mid-Range

	Impact	GDP Multiplier (excl. induced effects)	Rank (out of 99)
Top 5 industries	Financial services	3.71	1
	Public administration	3.65	2
	Electricity distribution	3.55	3
	Insurance, pension	3.54	4
	Coal and lignite	3.52	5
South African Film Industry		**2.89**	**50**
Bottom 5 industries	Non-structural ceramic	1.42	95
	Radio, television	1.17	96
	Office machinery	1.10	97
	Aircrafts	1.00	98
	Engines, turbines	0.99	99

Multiplier Comparison - Industries With Similar Multiplier

South African Industry	Multiplier
Iron, steel products	3.06
Grain mill products	3.05
Fish	3.04
Vegetables	3.04
Plaster, cement	3.02
Paper products	2.97
Soap, cleaning, perfume	2.95
Film Industry	**2.89**
Carpets and other textile coverings	2.89
Catering services	2.88
Pasta products	2.87
Passenger transport	2.82
Plastic products	2.80
Other fabricated metal	2.77
Furniture	2.77

Value Chain Analysis: General

82% of projects

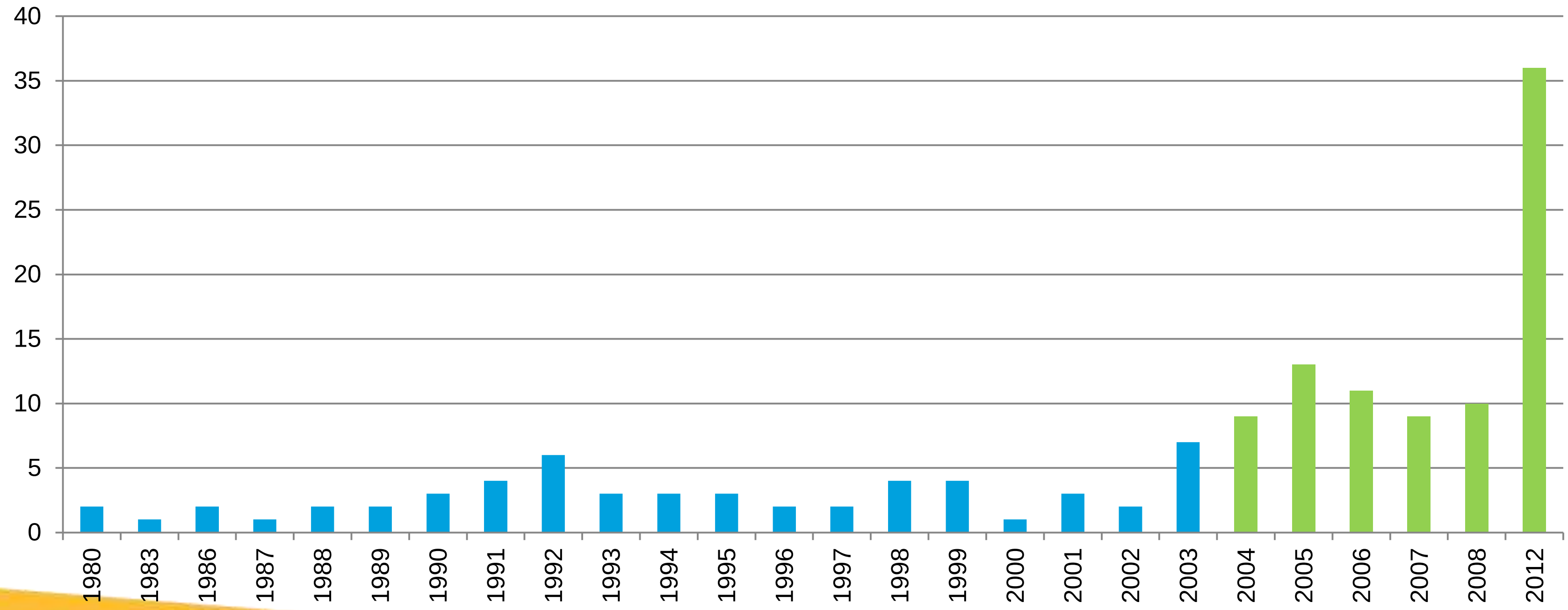
Description	Local	Local	International	International	Total
Budget / project (ZAR)	>10 million	<10 million	>10 million	<10 million	
Number of projects	16	20	7	1	44
Total QSAPE (ZAR)	608 445 715	100 913 372	481 000 719	2 021 024	1 192 370 830
% of Total QSAPE	51%	8.5%	40.3%	0.2%	100%

60% of QSAPE

Growth in Local Films Produced

Since the introduction of the DTI incentive in 2004, the number of South African films has increased exponentially.

No. of SA Films



Value Chain Analysis: Pre-production

Pre-production costs are the second lowest stage in the value chain:

Key trends / issues:

- Lack of development cost funding; and
- Lack of upfront production cost funding.

Value Chain Analysis: Production

Production costs are the highest stage in the value chain:

Key trends / issues:

- Provincial preference – still Western Cape and Gauteng;
- Low budget films on the increase;
- Transformation – 46% of semi-skilled or above individuals working in the South Africa film industry are black;
- Training and development – broadcasters and low budget models growing; and
- Production incentives – need to be more competitive.

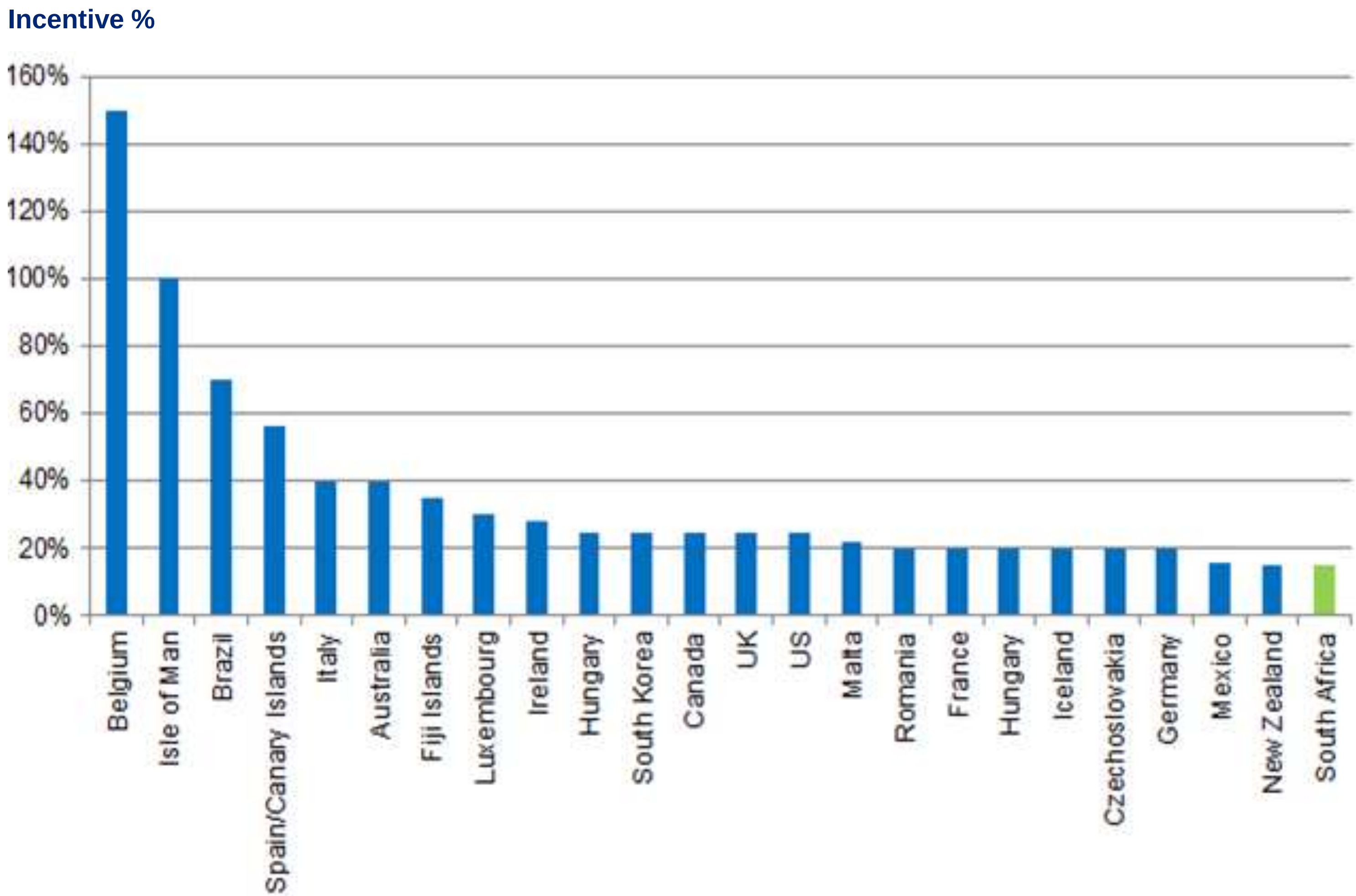
Value Chain Analysis: Production - Transformation

The online survey revealed that 63% of all individuals employed were semi-skilled or above.

Applying this to the DTI information:

Number of individuals employed		39 961
63% are skilled* or semi-skilled** (39 961 x 63%)		25 175
Number of white individuals		15 537
Thus, number of black individuals		11 639
Thus, % of total semi-skilled or skilled individuals	(11 639 / 25 175)	46%

Comparison of Global Film Incentives



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* Semi- skilled is defined as: individual with professional / tertiary degree.

** Skilled is defined as: individual with minimum matric / grade 12 completed.

Value Chain Analysis: Post- production

Post-production costs are the second highest stage in the value chain but still low in comparison to production costs:

Key trends / issues:

- Technology – reducing barriers to entry, improving release costs; and
- Post-production incentive – not competitive enough.

Value Chain Analysis: Distribution

Distribution costs are the lowest cost in the value chain and are valued at R63.1 million.

Key trends / issues:

- Small cinema going audiences;
- High exhibitor costs;
- Short flighting windows;
- Low local print and advertising costs;
- Decreasing DVD revenues;
- Broadcaster – funding;
- Lack of distribution incentives; and
- Lack of international presence / drivers.

Conclusion

The South African Film Industry has proven that it is worthy of support given that:

- Its multiplier of 2.89 put it at mid-range when compared to 99 other industries;
- It delivers 3 times the taxation back to the fiscus that it receives from the DTI Incentive;
- It has shown 84% total growth over the past 6 years;
- and
- Despite hurdles throughout the industry's value chain it has shown the commitment and the ability to adapt, survive and grow.

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