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Transformation, Job Creation and Subsidies to Creative Industries: The Case of South Africa's Film and Television Sector

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Many governments have tried to stimulate economic growth via creative industries policy. South Africa is no different, but has the additional aim of achieving social and labour market transformation post-apartheid. In 2004 the South African Department of Trade and Industry (DTI) introduced the "Film and Television Production Rebate Programme", with the main aim being to attract large budget foreign films to facilitate foreign capital inflow and skills transfer. It was amended in 2008 to include support for the local film and television industry, and in 2011/2 to include post-production activities for foreign productions, and the removal of a R10m subsidy cap for local and international films. The stated aims of the incentives are (i) to attract big budget production and post-production film and television projects; (ii) to stimulate the industry, encouraging job creation and skills transfer; and (iii), the "enhancement of the international profile" of the South African film and television sector (DTI 2012).

This study analysed the effectiveness of the incentive schemes in terms of the broader aim of transformation in South Africa and its explicitly stated objectives. Data was obtained from the DTI on film and television subsidies granted between 2009 and 2012, unpublished industry reports and a small number of interviews with industry stakeholders.

Findings showed that the South African film incentive programmes has had some success in stimulating the film industry, particularly in helping to attract large-budget foreign films and co-productions. For companies specializing in this area, the incentives are working well. On average, about half the total subsidy money goes to the top three firms, with nearly three-quarters going to the top 10 firms. The economic impact of subsidized films on the South African economy between 2009 and 2011 was, on average, R2.2 billion per year, with the employment of about 15,500 people in full time equivalent (direct and indirect) jobs per year. Skills development is occurring mainly through knowledge spill-overs from foreign and co-productions, as well as various internship and training programmes. However, transformation in the industry has been slow, partly due to the short-term contract nature of the industry, which makes it a risky career option for emerging black film-makers, and partly due to the disincentive for private firms to invest in highly mobile human capital.

Challenges experienced by film and television producers in South Africa can be divided into general issues, experienced by all producers, and those specific to smaller-budget South African productions. General problems can be summarized as follows:

- Lack of business acumen amongst producers, especially smaller companies;
- Competition from other countries regarding incentives and subsidies;
- A sometimes volatile exchange rate;
- Lack of local demand for South African films;
- Lack of vertical integration (too narrow a focus on production)

Smaller producers, and those engaged in longer term projects (such as documentaries and animation), experience difficulty in securing financing, for a number of reasons, including: the R2.5 million minimum spending required in order to qualify for the subsidy; rent-seeking behaviour by agents employed to help firms navigate the complexities of subsidy application and auditing requirements; and difficulties in reinvesting in the firm, since a requirement of the subsidy is that the special purpose vehicle (SPV) set up for each project cannot own any capital equipment.

Three key policy suggestions emerge:

(i) Firstly, it is suggested that using tax rebates would be more effective than the current subsidy system, especially for smaller-budget projects and those taking place over a longer time period. This would reduce the complexity of applying for the incentives and the tendency to inflate qualifying South African production expenditure in order to maximize the subsidy.

(ii) Since the film production industry is already focused largely in the Western Cape, the introduction of an Industrial Development Zone (IDZ) specifically for the creative industries could be considered. IDZ status would support economic benefits, such as knowledge and skills interchange, and enable the further development of "created asset" comparative advantages to add to the current locational advantages that make South Africa an attractive filming destination for foreign films.

(iii) Thirdly, there is a clear need for the differentiation of the incentives to take into account emerging independent producers, who are currently not benefitting much from the subsidy. Smaller projects act as valuable seedbeds for the creation and development of new talent to refresh the crew base of the industry and are more likely to employ black South Africans in creative and ownership positions, thus helping to achieve transformation objectives.