The information portrayed in this document has been drawn from a number of sources through questionnaires and interviews. The information reflected here is an abstract from a wider study conducted by PricewaterhouseCoopers of the film industry both locally and globally, on behalf of the Department of Arts, Culture, Science and Technology. As this was the first survey of its kind in South Africa, very little primary research was available, and while some of the key players in the industry provided very good information, in other instances very little information was disclosed. While PricewaterhouseCoopers has undertaken all reasonable measures to ensure the accuracy and representativity of the information contained herein, it cannot accept any responsibility for any inaccuracies and omissions.

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1 The history of the South African film industry

The first piece of film in South Africa was shown in 1896 (the first film globally was shown in 1895). Over a century later, the South African film industry is still in its infancy.

The South African (SA) film industry was born with the establishment of African Film Productions (AFP) and the production of the first fiction film made in South Africa "The Great Kimberly Diamond Robbery" in 1910. Many of the movies made in SA in the early years were adventures related to gold and diamond mining and most of the early movies dealt with white heroes and heroines, with African actors in subservient roles.

Isadore William Schlesinger is considered to be the father of cinema in South Africa. He owned African Film Productions (AFP), a distribution company called African Consolidated Films and exhibition venues operating under the name African Consolidated Theatres. In 1956, 20th Century Fox bought out Schlesinger's interests, thereby giving US companies a position in the SA market for the first time. AFP produced 43 movies between 1913 and 1956. Of these, 37 were produced during the period 1913 to 1922 when, due to World War One, it became too expensive to import US productions. After the war, production declined rapidly and between 1930 and 1950, very few SA films were made.

To counter the predominantly white controlled exhibition circuit, independent exhibitors like the Avalon Group came into being against tremendous odds.

During the early 1950's South African filmmaker Jamie Uys established a relationship with the SA government, persuading it to subsidise the production of local films. Despite this subsidy scheme, South Africa has never had a coherent approach to the film industry. A 1995 report by the Auditor-General revealed that R 2bn was spent on this scheme and 800 films were subsidised. This scheme, which was introduced in 1956 and discontinued in 1992, allowed producers to write off their investment within the year of production and in addition also claim 80% of the investment back. In theory, the criteria for accessing the funding were narrowly defined audience attendance rates rather than the overall development of the industry.

Early South African productions came primarily in three waves. Firstly there were the commercial films produced in Afrikaans for white audiences. These films seldom attempted to explore a national cultural psyche, and as such were a closed form, made by and for a specific population group. This genre paid little or no attention to its potential to make important comments about South African society to international audiences.

The second wave arose with the emergence of the "black" film industry during the 1970's. This boost to "black" films resulted in the production of a large number of shoddy films in ethnic languages that were screened in churches, schools, community centres and beer halls. At this stage, black and white audiences were divided, each with its own set of rules and operations, films and theatres. However, this industry was still owned and run by white production houses and exhibitors. The black film industry was therefore never a forerunner of a truly national film industry.

The third wave came about as a result of subsidy systems. These subsidy systems saw several hundred films being made, mostly inferior imitations of American genre films. The majority of these tax shelter films did not reflect any recognisable socio-political reality or national culture, and in practice the criteria were haphazardly applied. Films only had to be registered with Government and comply with the censorship regulations of the time. Many of these films were never viewed and between 1956 and 1984 only 16 of the 604 movies produced were sold outside of South Africa.

Despite the complete breakdown of the subsidy system and loss of confidence of private sector, our film makers displayed tenacity and creativity that resulted in a definite South African aesthetic to films. Good examples are the works of Oliver Schmidt, Darrel Roodt and even more recently, black film makers like Teboho Mahlatsi and Zola Maseko.

With the discontinuation of the film industry subsidy scheme in 1992, the industry found itself in dire straits. The scheme had lacked key elements, including the development of markets, the development of talent and an exhibition pipeline. Funding had simply been used as an additional source of income, and a number of investments were made purely for tax benefit rather than as a means of creating a sustainable industry. Wide-scale abuse took place, creating a negative perception of the industry. As a result, a stigma still clings to the film industry today, which is one of the main reasons for the reluctance of local investors to invest in film.

However, during the tax incentive and subsidy years, a number of films were made. The fact that production was taking place meant that strong technical skills and an infrastructural base developed, and as a result, South Africa has well-developed audio-visual facilities and other supply industries. A strong skills base was also created in the industry, which is still evident today.

The realisation by the new democratic government of South Africa that film contributes to the economic growth of the country, led to the establishment of the National Film and Video Foundation.

2 The South African oppportunity

Described by many as the world in one country, South Africa provides the perfect setting for the production of moving pictures.

An exquisite panorama of spectacular landscapes offers exceptional choices for on-location shooting, from arid deserts through snow-capped mountains to vast expanses of sandy beaches; from jungle-type wilderness through picturesque towns to modern cityscapes; a kaleidoscope of people, magnificent wildlife and bountiful flora complement every scene.

These scenic backdrops are enhanced by the moderate climate where long summer days and mild winters offer extended shooting hours. Glorious skies lend themselves to unforgettable sunrises and sunsets, with powerful thunderstorms adding dramatic effects.

The unique aspect of South Africa is that it combines these wonderful locations with a first-world infrastructure and filming facilities. Primarily a developed society, South Africa boasts excellent transport systems (road, rail or air), communication systems, deluxe five-star hotels, superior restaurants, hospitals and infrastructure.

The country falls into the same time zone as most of Europe and can be reached overnight by air via the services of the world's leading airlines.

On the technology front, there are numerous world-class media services groups offering comprehensive facilities and services to meet the pre-production, production and post-production needs of both domestic and international producers. Corporate Film South Africa is committed to the further development of the moving picture industry in South Africa through the facilitation of moving picture production including co-sponsorship opportunities and pro-active involvement in the creation of content.

Through established industry players, South Africa offers film facilitation, logistics and administration management services, which ensures the effortless and smooth production of films in South Africa. This is achieved through the world-class facilities and professional film facilitators in this country.

Other positive developments in the industry include:

- the success of Sithengi (the South African film and television market) in attracting local and foreign industry players;
- a positive legislative attitude towards copyright protection through a public awareness programme;
- cross-sectoral endorsement of film as an economic growth point by different government departments (e.g. Trade and Industry, Arts and Culture, Tourism and Broadcasting);
- The formation of independent film production organisations (e.g. the IPO, NTVA, CAFTEP, and BFVA);
- a well developed distribution and exhibition infrastructure;
- continued success of corporate and commercial production and talent, which has been recognised internationally;
- positive interventions by numerous NGOs (e.g. FRU, CVette and Ster Outdoor) to develop small and medium-sized exhibitors; and
- successful programmes such as

MNet's New Directions, Dramatic Encounters of the SABC, as well as the Close Encounters documentary programme on e.tv.

There is no doubt that South Africa is at the cutting-edge in terms of imagination, technology and product quality, with a wealth of experienced, talented and skilled people, both at management and operational level. Combined with the advanced technology employed across the industry, this talent provides foreign investors and producers with an excellent support infrastructure.

3 Policy initiatives

Following the democratic elections of 1994 in South Africa, a Ministry of Arts, Culture, Science and Technology was established. This was the first time in South African history that a distinct and separate portfolio was established for Arts and Culture. Included in this portfolio is the Film and Video sector. In 1995 the Government instructed the Department of Arts, Culture, Science and Technology (DACST) to embark on the restructuring of the South African film industry and to further investigate ways and means which would contribute towards the development and growth in the sector.

In 1996, DACST published the Film Development Strategy, which acknowledges that film is a high-risk industry, and that in many countries it is supported by the State for cultural and investment reasons. The Film Development Strategy committed DACST to the establishment of the National Film and Video Foundation (NFVF), which was formed with the promulgation of the National Film and Video Foundation Act 73 of 1997. The Governing Council was appointed on 8 April 1999. By setting up the NFVF, Government has shown its support for and recognition of the film industry as contributing to economic growth.

As the primary mechanism for State assistance in the development of the film and television industry, the NFVF is the key institution coordinating and promoting this industry. The Council of the NFVF translated the objectives of the Act into specific strategies that are sensitive to the needs of the industry. These strategies are as follows:

- establish effective relationships with the Minister of Arts, Culture, Science and Technology and other Government departments and regulatory bodies to influence policy and access funds;
- establish effective relationships with the National Lottery, private investors and international donors in order to access funds for the industry;
- build effective relationships with the film and video industry;
- initiate and support the development of diverse and effective education and training for the film and video industry – the foundation is mandated to conduct a feasibility study for the establishment of the South African Film School;

- to initiate, conduct and consolidate relevant research and communicate findings to the industry;
- to ensure domestic production and content growth;
- to ensure the growth and sustainability of existing and new audience development initiatives;
- to develop and implement effective domestic and international marketing and distribution strategies;
- to create awareness of existing incentives in the film industry and actively promote additional incentives for the industry, and to develop a mutually beneficial environment to attract international film productions;
- to research, design and implement innovative fund disbursement approaches;
- to promote a climate within which sustainable small, medium and micro enterprise (SMME) development can take place;
- to redress past imbalances in the industry by actively identifying and addressing these problems through all NFVF activities;
- to establish conditions for the efficient and effective running of the Council of the NFVF; and
- to establish an efficient and effective NFVF office that is capable of achieving the Council's objectives.

The establishment of the NFVF has been a first step taken by DACST to establish a vibrant industry. The NFVF, however realises that more is needed and they are proactively putting steps in place to ensure the realignment of policies and resources.

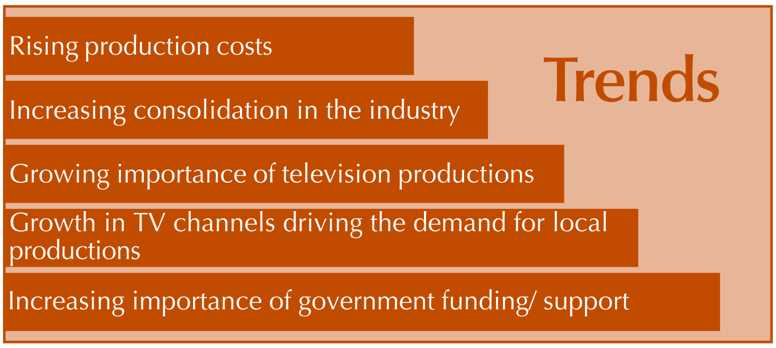
4 Key South African industry trends

A recent survey of the film industry in South Africa identified a number of key industry trends.

Trend 1: Increase in production costs

The weakness of the Rand against other major currencies (particularly the US$) has led to a significant increase in the cost of importing production equipment into the country. As a result, South African producers have been left with two options:

- Use old equipment and sacrifice quality; or
- Import new technology at huge expense.



Due to the competitive nature of the industry, the first option is obviously not viable and most producers are forced to make huge capital outlays in order to secure the necessary equipment to remain competitive.

The second factor contributing to the rise in production costs is the fact that like all film producing nations, South African producers are faced with a large human component in their production costs. Depending on the type of production and the genre, the human component (consisting of actors and crew) can represent between 40% and 60% of the total production budget.

In order to attract the best talent, producers have to ensure that their remuneration offerings are market related. In a highly competitive market (where over-supply prevails) with relatively small margins, this places considerable strain on the producers and has contributed to a situation where production costs have doubled over the past 10 years.

However, rapidly rising production costs is a reality in all film-producing nations. **According to *The Economist*, it is still 30-40% cheaper to film in Cape Town than in Europe or the US and 20% cheaper than filming in Australia.**

Also, the low value of the Rand against other currencies provides interesting export opportunities in that it allows producers to produce in South Africa and sell the productions to other nations with stronger currencies.

It is interesting to note that the post-production costs in South Africa have actually declined in real terms over the past couple of years. This is a result of major investment in equipment and training by South Africa's large post-production facilities providers in an effort to improve productivity and ensure international competitiveness.

A major problem facing TV production companies is that the rate for commissioning for productions has not kept pace with the increasing cost in production.

Trend 2: Increasing consolidation in the industry

Rising production costs are partially responsible for this trend, as only the larger, more successful producers are able to attain scale economies by securing large contracts and thereby keeping their production costs in check. The industry consolidation is also driven by the fact that a number of large South African media companies have acquired production companies in an effort to increase their capabilities in the media and entertainment sector.

In South Africa, the pareto principle increasingly applies as far as the number of production companies are concerned. **It is estimated that less than 15 production companies produce more than 90% of all feature films and television productions in South Africa, although there are currently more than 150 registered producers in South Africa.** This trend is expected to continue until such time as capacity is more closely aligned with demand. Currently there is still considerable spare capacity in the industry, which could easily cater for increased production volumes, but until the necessary measures are put in place to stimulate growth in demand for South African productions, the spare capacity will remain just that.

Trend 3: Growing importance of television productions

The South African film industry has traditionally been highly dependent on the commissioning activities of the National Broadcaster for the majority of production work. According to the latest research, the revenue generated from television production currently constitutes approximately 36% of the total annual film/television revenues.

This trend is expected to continue for the following reasons:

- The television audience in South Africa is growing at approximately 13% p.a. (based on the free-to-air audience growth). This, coupled with the fact that local content has proven extremely popular with viewers, will continue to drive the demand for television productions.
- The increase in the number of channels available to South African viewers has resulted in an increased demand for local programming from the television channels due to local content quotas imposed by the regulator.
- South African broadcasters are actively exploring opportunities to distribute local productions into the rest of Africa through direct sales and through a form of "bartering", where content is exchanged for advertising airtime. This is expected to drive growth in demand for locally produced television content. The television industry will continue to have a significant impact on the South African film industry.

Trend 4: Growth in the number of TV channels driving the demand for local productions

It is a well-known fact that in South Africa, locally produced television productions are extremely popular among viewers. However, as in all other film-producing countries, it is a lot cheaper for a broadcaster to import productions than to commission production locally, especially when the local productions tend to be country-specific and not easily exportable (e.g. no potential economies of scale created).

Local broadcasters have to weigh these two factors up against one another and determine the most effective way to provide viewers with the content they demand, and at the same time ensure compliance with local content requirements.

In South Africa, both the public and private television broadcasters have commissioned some immensely successful television drama series such as "Egoli - Place of Gold", "Isidingo" and "Generations" and this genre is expected to continue representing a large proportion (40% or more) of the local productions commissioned.

Trend 5: Government funding/support is becoming increasingly important

Due to internal operational issues, the Public Broadcaster has cut back significantly on its commissioning budget. Some of the spare capacity has been absorbed by the growing demand for local productions at other broadcasters. **However, it is becoming apparent that the local industry cannot hope to develop into a global force based on the commissioning activities of local broadcasters alone.**

The South African film industry has never really benefited from government funding mechanisms. The industry generates close to R 1.4 billion worth of production per annum and the funding provided by government is currently R10 million per annum, implying a funding ratio of 0.7%. It is clear that much can be done to increase the government-funding ratio (the ratio between the size of the industry and the amount of funding made available to the industry) if the local industry funding is to be comparable with international benchmarks.

Recent research indicates that some of the most successful countries have an average funding ratio of 19%. This implies that for R1 of production, R0.19 is available through various forms of funding. Based on this ratio it would suggest that funding of at least R260 million per annum is necessary in order to reach the current levels of success attained by other countries.

It is widely believed that one of the major impediments to industry growth has been the lack of funding. By addressing the issue of funding, Government can assist to grow the film industry, which would have a positive impact on many other sectors of the economy such as tourism, catering and insurance.

Other significant trends worth mentioning

A number of trends are also shaping the South African film industry, including

- emergence of black film talent;
- alignment and consolidation of the independent film production sector;
- past and recent surges of media donor funding for the development of documentaries;
- international demand for SA conservation and wildlife productions;
- recent SA participation in international markets (albeit uncoordinated);
- realisation and in some cases active steps towards the use of digital production formats and its application thereof in an African setting;
- steady move towards coordinated film research and statistical collation – there is, however, still a lack of commitment from some industry players to participate;
- the decrease in video hire activity;
- the increase in video sell-through; and
- a newly re-regulated broadcasting industry that still needs well defined monitoring mechanisms to drive measurements regarding local content quotas from a production point of view.

5 Economic indicators and the positive implications of funding and initiatives

The role of incentives

Incentives are defined as any measurable economic advantage afforded to business enterprises or categories of enterprises by a government or government agency, in order to encourage certain types of economic activity. In a globalising world economic tariffs are gradually being abolished, but several high performing emerging market economies (HPEMEs) have turned to fiscal incentives to stimulate the formation or output growth of specific industries. Most countries operate some form of export incentive scheme and most HPEMEs provide official support to the development of high technology industries.

The quid pro quo for government incentives to certain industries is traditionally related to a variety of economic causalities flowing from the particular incentive. An export subsidy, for instance that results in higher exports, benefits the economy through:

- increased domestic output;
- increased foreign exchange earnings;
- increased value added in backward-linked industries;
- increased employment; and
- a fiscal backflow effect, especially through income tax, value-added tax, and corporate tax.

The rationale for incentives is also linked to positive externalities that can result from economies of scale and the creation of new knowledge. Their fundamental aim is to stimulate economic development through lowering certain cost elements, and they are most efficient when adequate cooperation exists between the public and private sectors. Most HPEMEs have formal institutions that facilitate communication and cooperation between the private and public sectors. From a macroeconomic perspective, these institutions facilitate the transmission of information and they assist in establishing a framework of rules within which each industry operates.

Economic incentive schemes in South Africa have traditionally concentrated on manufacturing industries, and, since 1994, also on small, medium and micro enterprises (SMMEs) and on businesses owned (wholly or jointly) by members of previously disadvantaged groups. Very few of the current 38 incentive schemes administered by the Department of Trade and Industry are accessible to the film industry.

Key macro-economic data

Disaggregated statistics relating to the film industry are not compiled on a regular basis by Statistics South Africa, but the 1995 census of social, recreational and personal services does contain some information on the sub-sector for motion picture and video production.

The film industry is often regarded as being part of the sector for transport, storage and communication, but is officially a part of the sector for community, social and personal services (which includes recreational services).

Within this broad sector of economic activity, post-democratic growth has not been spectacular, as illustrated by table 1. Although positive annual real output growth was recorded between 1993 and 1999, the average rate of 1.1% is well below the average of 2.4% for the total economy.

In terms of capital formation (which is a prerequisite for future output growth beyond current capacity constraints), the sector for community, social and personal services has produced annual real growth of 1.1%, marginally lower than the figure of 1.4% for the total economy. (See table 2).

Tables 1 and 2 illustrate the dominance of the sector, which includes communication. The latter sector has strong linkages with the film and video industry and a degree of statistical error probably exists between recreational services and certain forms of visual communication.

Table 3 nevertheless confirms the below-average economic trend for recreation and entertainment with post-1993 annual

Table 1: Average annual real GDP growth by sector - 1993 to 1999

Transport, storage and communication	7.2%
Financial and business services	4.1%
Electricity, gas and water	3.2%
Total economy	2.4%
Manufacturing	1.9%
Trade and catering	1.8%
Construction	1.8%
Agriculture	1.7%
Community, social and personal services	1.1%
General government services	0.5%
Mining and quarrying	-0.6%

Source: SA Reserve Bank

Table 2: Average annual real growth in the value of fixed capital stock by sector - 1993 to 1999

Manufacturing	3.0%
Transport, storage and communication	2.2%
Financial and business services	1.9%
Trade and catering	1.7%
Total economy	1.4%
Community, social and personal services	1.1%
General government	0.8%
Mining and quarrying	0.0%
Agriculture	-0,2%
Construction	-0.3%
Electricity, gas and water	-1.5%

Source: SA Reserve Bank

Table 3: Average annual real growth in final consumption expenditure by households according to purpose - 1993 to 1998

Health	6.3%
Education	4.4%
Clothing and footwear	4.3%
Total	3.1%
Transport	3.0%
Hotels and restaurants	2.7%
Housing, electricity and fuel	2.5%
Furnishings and household equipment	2.2%
Food, beverages and tobacco	2.1%
Recreation, entertainment and culture	2.1%

Source: SA Reserve Bank

Table 4: Key statistics relating to the film and video production and distribution industry

Value of sales in 2000 (at historical growth rate)	R1.35 billion
Average annual growth in turnover 1988 to 1995	17.6%
Number of enterprises in 1988	1 304
Number of enterprises in 1995	446
Number of full-time employees in 1995	4 048
Household entertainment expenditure as % of total	5%
Net profit as % of turnover for industry	10.2%

Source: PwC Economist

real growth in final consumption expenditure by households being the lowest for this category.

Statistics specifically related to the film and video industry indicate average annual nominal growth of 17.6% in trading income for the period 1988 to 1995. An extrapolation of these figures to the year 2000 indicates an industry that has total sales of R 1.35bn, which is only marginally less than the industry estimate of R 1.4bn.

Table 4 summarises key statistics from the above-mentioned census. The industry has witnessed a sharp decline since 1988 in the number of representative enterprises. The census figure of 446 enterprises is 25% lower than the estimated 560 film production companies quoted in the Screen Africa Directory 2000 and the difference is explained by a general revival of economic activity in the 1995 to 2000 period, which has led to a broad-based increase in the number of new business enterprises.

Full-time employment levels in the film industry are relatively low, but the industry is characterised by the sporadic use of part-time employment or so-called freelance employment.

Economic multiplier effects

As mentioned, most governments operate incentive schemes designed to stimulate domestic economic activity or to attract foreign direct investment. In order to quantify the likely impact of economic incentives, it is useful to employ certain multiplier effects generated through the input-output process.

Table 5 lists two categories of multipliers for selected sectors that are aligned to the expenditure patterns of most households, including the sector for profit-seeking services, which includes film production. The ranking has been done in terms of the

Table 5: Selected sectoral multipliers

Sector	GDP multiplier[1]	Employment multiplier[2]
Wholesale and retail trade	1,659	29,1
Profit-seeking services	1,647	32,6
Communication	1,574	24,7
Catering and accommodation	1,537	30,7
Furniture	1,536	38,5
Total economy	1,479	27,9
Clothing	1,473	41,0
Electricity	1,378	16,4
Food processing	1,377	35,6
Motor vehicles and parts	1,350	22,8

Notes: 1. Change in GDP with R1 change in final demand.
2. Change in employment with R1m change in final demand.

Source: Industrial Development Corporation

GDP multiplier and it is clear that the profit-seeking services sector possesses above-average multiplier effects. In order to illustrate the effect on the macro-economy of an incentive-induced increase in the output levels of the film industry, the following model (*Table 6*) was developed for the South African industry, clearly showing the benefits of supporting the film industry.

The fiscal backflow effect

The world has entered into a new economic order, which is increasingly being characterised by globalisation and strong growth of knowledge-based industries.

On an institutional level, most economies have embarked upon a new approach towards the relationships between the private and public sectors. In a nutshell, this approach is based upon the adage that "to govern well, one must govern little", and the new economic order is also characterised by concerted efforts to deregulate unnecessary public sector impediments to free enterprise. Against this background government intervention in the area of industry-specific support measures needs to be treated with caution.

For the reasons briefly alluded to earlier, a strong case can be presented for industry-specific incentive schemes, particularly when the fiscal backflow effect is brought into the equation.

The model used in the multiplier effect can be quantified in terms of the fiscal backflow to Government, which is depicted in Table 7.

Table 6: The economic multiplier effect

Under the assumption that an incentive of 15% of value of production (for foreign investment production) leads to an increase in output of 20% for the industry as a whole, the economic effects are as follows:

- Increase in production = 20% x R 1,400m = **R 280m**
- Increase in gross domestic product = 1.647 x R 280m = **R 474m**
- Increase in total employee remuneration in the economy = 55.8% x R 474m = **R 257.33m** (the employee remuneration/value-added ratio for the economy is 55.8%)
- Increase in direct and indirect employment = 288 x 32.6 = **9,128 employment opportunities**

Table 7: The fiscal backflow effect

- Direct tax revenue on income and wealth = 22.3% x R 280m = **R 62.44m** (the relevant ratio for the economy as a whole is 22.3%)
- Indirect tax revenue = 13.9% x R 280m = **R 38.92m** (the relevant ratio for the economy as a whole is 13.9%)
- Total tax revenue generated = **R 101.36m**
- The initial incentive amounted to 15% of production increase, which is R 42m. This implies a return on investment for the fiscus of **241% or R 69.36m** that can be reinvested in the development of the industry

6 Key indicators of film and video production

Historically there has been very little qualitative information available on the South African film and television industry. For this reason, the Department of Arts, Culture, Science and Technology (DACST), commissioned a detailed industry survey in an effort to develop accurate base figures to serve as a reference against which future growth can be measured.

The latest available information indicates that the entire South African entertainment industry is worth approximately R7.7 billion. This value includes the broadcasting, cinematic, music and interactive industries, and represents about 0.5% of the total global entertainment industry.

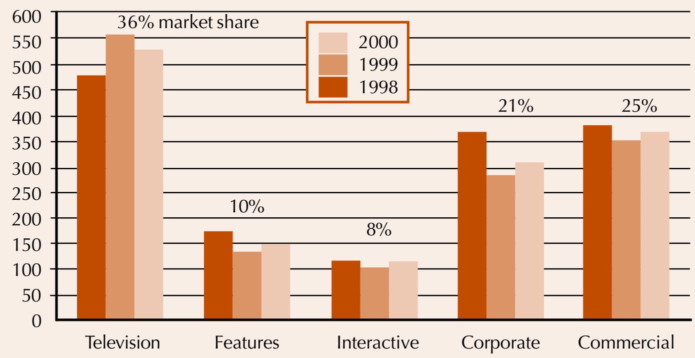
Spatial distribution

The South African film industry is largely located around Johannesburg in the Gauteng province, with 82% of the survey respondents reporting that the majority of their business is conducted in this area. The reason for this concentration is the fact that both the SABC television centre and the main consumers of corporate television services are based in the Gauteng area. The Western Cape, specifically Cape Town, is very popular for shooting commercials.

The Western Cape represents about 16% of the industry activity. Other pockets of the film industry can be found in Kwazulu-Natal and Mpumalanga provinces.

Although concerns have been raised by industry stakeholders about the unequal distribution of opportunities among the provinces, the reality is that Gauteng is likely to remain the centre of production, distribution and exhibition for the foreseeable future. Most of the main players in the industry are located in Gauteng or have head offices located there.

Table 1: Comparison of local content production industry (1998-2000E)



Source: Merrill Lynch, African Film and TV, Industry Interviews, CPA industry audit, PwC estimates

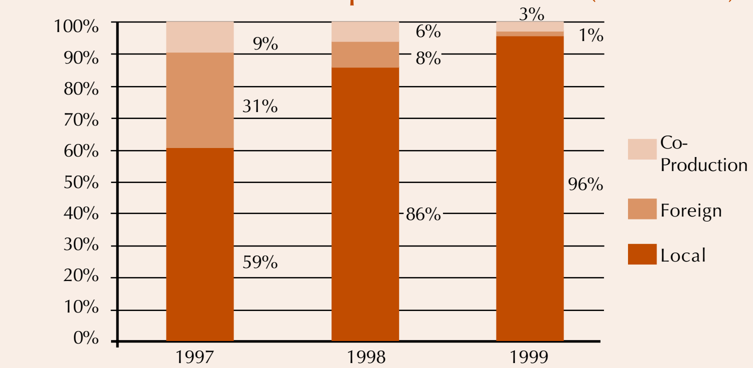
Production

The local production industry is estimated to be worth approximately R1,4 billion. The contribution that each industry sub-sector makes to this total is illustrated on Table 1.

Television production

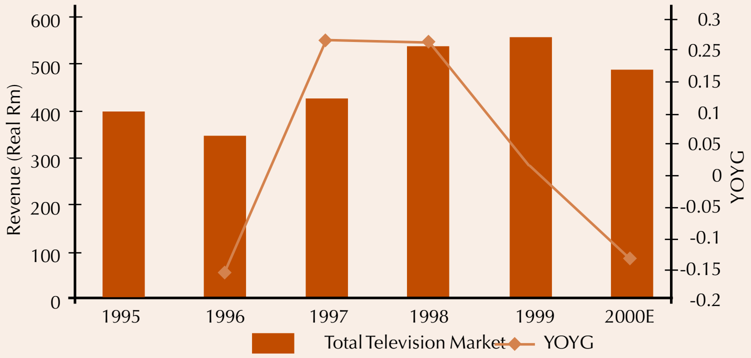
As can be seen from the graph (*Table 1*), the local industry is dominated by television productions. The most popular genre on television is the Drama genre (which includes drama, sitcom, movie, mini-series, soaps and dubbed programmes), followed by Magazine programmes, News and children's programming. Reality shows like "Survivor" and "Who wants to be a millionaire" are rapidly growing in popularity.

Table 2: Source of television production revenue (1997 - 1999)



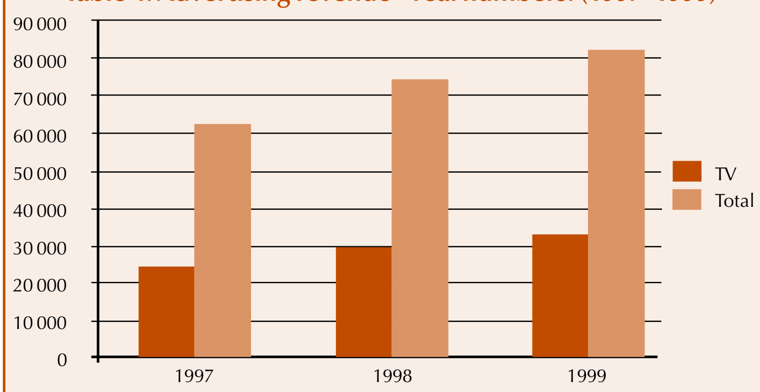
Source: Screen Africa

Table 3: Television production revenue (1995 - 2000)



Source: Merrill Lynch, CIGS SA Film and Industry Report, Broadcaster Interviews, PwC estimates

Table 4: Advertising revenue - real numbers: (1997-1999)



Source: AC Nielsen/Adindex

In order to understand the commissioning trends refer to the graph (*Table 2*) illustrating the sources of revenue (bottom) (compiled from a representative industry sample) for the producers of television programming over the period 1997 to1999.

A number of trends can be identified:

- The revenue generated from 100% local productions has increased significantly over the period, indicating an increased reliance on the commissioning of local broadcasters.
- The revenue generated from co-productions and foreign location shoots has shown a significant decrease.

The above trends can be attributed to the fact that the majority of South African television productions are commissioned by local broadcasters and are intended for local consumption only. They therefore do not attract foreign partners.

In real terms the revenue generated from television productions has grown at a rate of about 4% p.a. during the period 1995 to 2000. (*Table 3*).

Television viewership and advertising revenue

Television viewership is growing at a rate of about 13% p.a. and it is estimated that out of a total population of 40 583 573, South Africa has a TV audience of about 14 559 000.

Advertising revenue has been growing in line with the growth in viewership (CAGR of 17% p.a. over the 1997 to 1999 period) as illustrated in Table 4.

Broadcasters charge between $308 and $385 per Audience Rating (AR) point for advertising.

Distribution and transmission

Cable television is not currently considered as a viable option in South Africa, due to the dispersed population.

However, satellite distribution is seen as being very viable and cost effective. Three SABC channels and e.tv are available on the DStv bouquet. Another pay-television channel is scheduled for licensing in 2001.

Transmission is primarily in the hands of the national telecommunications giant Telkom, which in turn has allowed a number of companies to carry television signals. They are Sentech, which was originally the SABC's distribution department, and Orbicom, which delivers DStv's satellite signals.

This entire landscape is likely to change dramatically in a year's time. The statutory monopoly of Telkom expires in 2002, and already large consortia, notably Johnnic Communications, have signalled their intention to bid.

The demand for bandwidth is also growing, but so has the supply, with a resultant drop in prices. Narrowcasting in South Africa is undoubtedly becoming cheaper, but more expensive as far as marketing goes due to the multi-channel environment.

Feature film production

Feature film production in South Africa exists on two levels. The most lucrative is the facilitation of international and foreign films that find South Africa to be a useful location in terms of flexible and original sites, and the favourable ex-

Top programmes on the channels (according to latest ratings)

Channel	Programme	Genre	Audience Rating
SABC1	Generations	Soap	16.73
	Unyana Womntu	Drama	13.98
SABC2	Ha a Mele Ditshiba	Drama	14.32
	Kelebone	Drama	12.58
	Lottery Game Show	Quiz	12.55
SABC3	Top Sport Cricket	Sport	9.77
	News	News	8.19
	Gladiators	Variety	7.6
M-Net	Who Wants to be a Millionaire	Quiz	5.48
	Carte Blanche	Magazine	4.55
	Egoli	Soap	4.49
e.tv	Jumanji	Movie	6.38
	WCW Thunder	Sport	4.82
	First Knight	Movie	4.79

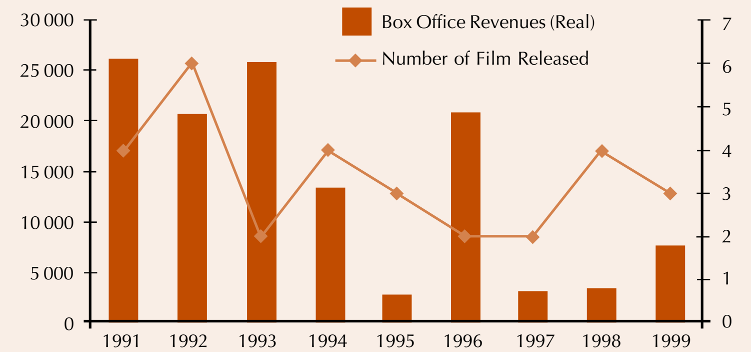
change rate. In general, the films that profitably use South Africa as a location have a significant African content, and often a local investor. The most successful production of this nature was the 1995 production "The Ghost and the Darkness".

Since 1995, there are on average five films produced every year, wirh the most active company being the British company Peak Viewing. The only company to make a significant number of films in South Africa, is the Durban-based VideoVision. Turnover of the local industry can only be estimated as there are no controls or central data, and special deals abound. These productions probably contribute some R 100 million every year to the local industry.

Locally produced films are less successful. The two main productions of 1999 were:

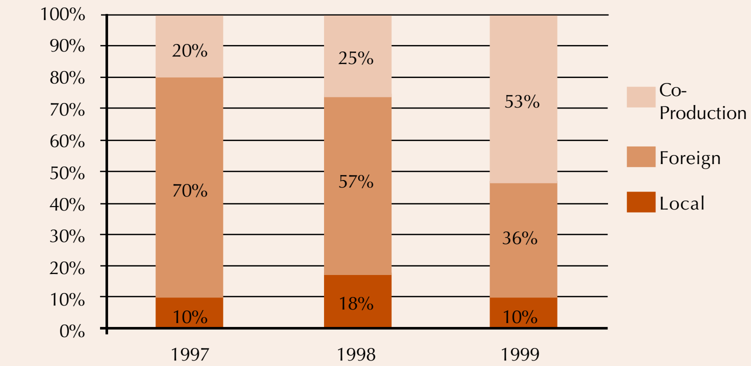
- "Heel against the Head", a comedy, which cost about R 450 000 to produce and generated R 2,9 million at the box office; and
- "A Reasonable Man" which cost R 430 000 to produce and generated a mere R 315 000 at the box office

Table 5: Local Film Performance at the Box Office: (1991- 1999)



Source: PricewaterhouseCoopers research

Table 6: Source of feature film revenue:1997-1999



Source: Screen Africa

Table 5 illustrates the annual number of locally produced feature films released onto the South African circuits during the period 1991 to 1999 and gives a indication of the revenues generated. A number of trends can be identified from the graph, namely

- the most successful local productions during the period were comedies;
- the number of local films released annually in South African theatres have been declining; and
- apart from the successful comedies, box-office revenues from local productions declined during the period.

In order to understand the composition of the local productions in terms of the split between 100% locally produced films, co-productions and foreign location shoots, refer to the revenue breakdown of the 1997 to 1999 period in Table 6.

A number of trends can be identified:

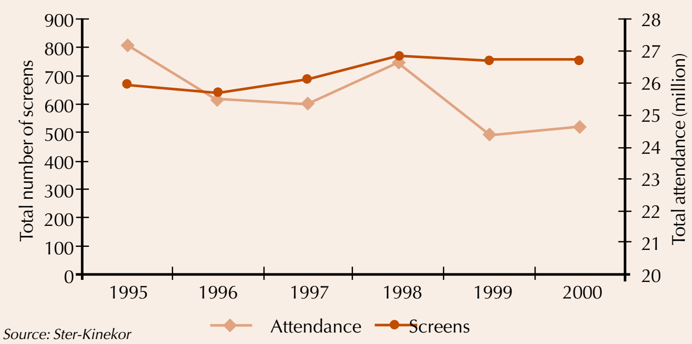
- Revenue generated from co-productions has increased at a rate of 63% per annum over the period.
- Revenue generated from foreign location shoots has decreased at a rate of 28% per annum over the period.
- Revenue generated from 100% local productions has shown little growth over the period under review.

Table 7: Box office comparison

Country	No. Local	Total box	Domestic	US share of
Canada	87	441	2-3	85
South Africa	10	68	0.8	90
Australia	37	419	4	87
Spain	65	445	12	80
Germany	61	914	9	84
UK	80	925	14	84
France	148	1070	27	69

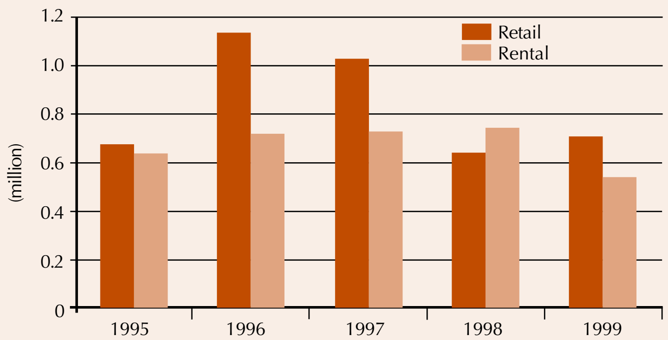
Source: Ster-Kinekor and PricewaterhouseCoopers research

Table 8: Number of screens vs. attendance



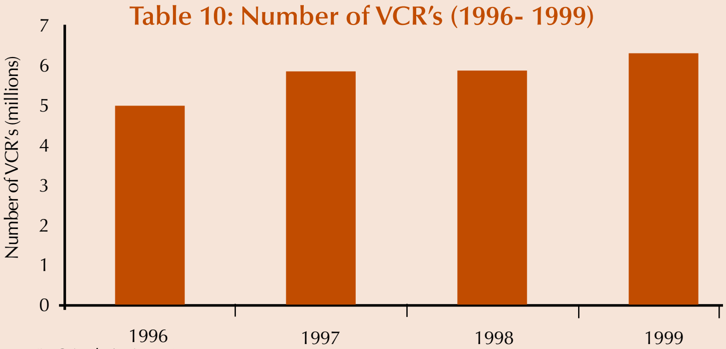
Source: Ster-Kinekor

Table 9: Number of videos: Retail vs. Rental



Source: PwC Analysis, Ster-Kinekor Financials

Table 10: Number of VCR's (1996- 1999)



Source: PwC Analysis, Amps 1996-1999

Distribution and exhibition

The major US studios dominate the box office in South Africa as they do around the world. This dominance is expected to continue and can be attributed to large production and marketing budgets. Table 7 gives a box office comparison with estimated annual figures, comparing South Africa against selected countries (1998).

In line with international trends, South African theatre attendance has been declining over the past few years, while the number of screens has been growing. Table 8 illustrates this trend and the respective growth rates.

Video rental and retail

The video market (retail and rental) generated revenues of approximately R 160 million during 1999. The local video market has declined (in real terms) during the past three years, as far as the number of units shipped is concerned. Table 9 illustrates this trend.

Revenues from video rental dropped sharply during 1999, while revenue from retail sales showed strong growth. When considering the period 1995 - 1999, the average real revenue per video has decreased for rental units, compounding the negative effect on overall video revenues. Real revenue per unit has increased for retail video. Despite the decline in units shipped, there has been strong growth in the number of video recorders sold per year. Table 10 illustrates this trend.

By year-end 1999, there were 32 000 DVD players in South African house-holds. By March 2000 this had grown to 60 000, by May it was at 80 000 and it is expected to reach 130 000 by the end of 2000. It is estimated that 30% of the DVD players in South Africa are "parallel imported", which means that they can play DVDs from any zone.

The South African consumer market

The following information summarises the South African film/television consumer market:

	1994	1995	1996	1997	1998	1999
Population						
Total population (millions)	40	41	41	41	41	41
Total households (millions)	8.000	8.319	8.478	8.478	8.478	8.470
Television sets						
Colour TV households	3.716	3.444	3.747	3.908	4.139	4.178
% penetration (colour TV to total households)	46%	41%	44%	46%	49%	49%
VCR's						
Number of VCR households (millions)	1.528	1.557	1.814	1.951	2.095	2.243
% penetration (to colour TV households)	415	45%	48%	50%	51%	54%
Average VCR retail price (Rands)	1600	1500	1300	1200	1000	1000
VAT incl in retail price	224	210	182	168	140	140
Audio Product						
No of Hi-Fi households	3.104	3.328	3.993	4.015	4.250	4.349
% penetration of total households	39%	40%	47%	47%	50%	51%
No of CD audio households	1.550	1.650	2.022	2.205	2.381	2.456
% penetration of Hi-Fi households	50%	50%	51%	55%	56%	56%
CD player retail price	1400	1200	1100	1050	1000	800
DVD						
No of DVD player households (‘000s)					15	32
% penetration of total households						1%
DVD retail price					4999	3999
No of DVD ROM households					.003	.006
Laser disk						
No of laser disc player households (millions)	.022	.026	.030	.040	.040	.040
Cinema						
No of cinemas	75	66	60	63	70	73
No of screens	520	460	450	470	512	530
Annual theatre attendance (millions)	21	23	22	23	26	25
Attendance per general population	0.54	0.56	0.53	0.56	0.62	0.60
Admission price (maximum)	12	14	20	23	24.5	25.5
Admission price (average)	10.03	11.42	12.31	12.71	14.09	15.9
Gross box office R-m's)	215	262	275	297	365	399
Television						
Government-owner stations	4	4	4	4	3	3
Commercial (private and free TV)	1	1	1	1	2	2
Total number of stations	5	5	5	5	5	5
Satellite						
Number of satellite channels available	0	34	34	34	38	42
No of dish households	0	.025	.025	.078	.155	.227
% penetration of colour TV households	0	1%	1%	2%	4%	5%
Average cost of dish installation		4500	3800	3500	3500	2999

Source: Census 1996

7 Current initiatives of the NFVF

In the past three years, 1,203 applications for grants have been received by the NFVF, of which a total of 414 projects received allocations worth over R30 million. The annual funding budget was R 10.685m, however there was recognition of the need for a more coherent and strict project monitoring system. Such a system was rolled out by the NFVF over the last year.

The annual project expenditure was as follows:

- 1997 - R 9.835m
- 1998 - R10.225m
- 1999 - R10.563m

During these first three years the majority of the funding allocated by the DACST Interim Film Fund went towards production (41%), content creation (22%) and training (21%), as depicted by Table 1.

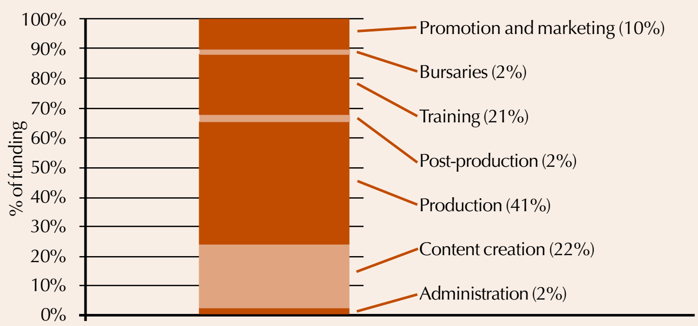
When looking at the projects initiated via the Interim Film Fund, 22% of the projects initiated in the 1997/1998 period are complete, 14% screened and 34% have submitted progress reports.

Of the 1998/1999 projects, 18% are complete, 9% screened, 8% are in production and 33% have submitted progress reports. In total, 21% of the projects have been completed and are seeking distribution channels, whilst 10% have already been screened.

With regard to the value chain activities, the following is evident of the projects initiated via the Fund (1997-1999):

- Content creation (R 6.928m) - Most of the funds (48%) have been allocated to features, whilst the balance are mostly divided between TV (23%) and documentaries (21%).
- Production and post-production (R 13.507m) - The two major benefiting sub-sectors were documentaries (49%) and features (29%), with TV a distant third.
- Training (R 5.946m) - A good balance was created between institutional training (54%) and on-the-job or project-based training (46%).
- Promotion (R 3.312m) - All the funds were utilised through promotion at international film markets and festivals.

Table 1: DACST film funding category breakdown



Source PricewaterhouseCoopers research

8 The way forward

There is no doubt that the South African Film Industry has the potential to grow and compete effectively in the international market place. High-level action steps have been developed that should be pursued in order to take the industry forward in a proactive manner. The steps put forward are based on the South African research performed as well as best practice principles that were identified from the experiences of other film producing nations.

The Government has established the formation of the NFVF, which is mandated to develop and promote the South African film industry. The key objectives for the South African film industry should be to ensure:

- convergence of current industry initiatives; and
- implementation and coordination of new industry initiatives;

through the workings of the NFVF.

These objectives can be achieved through a focus on six key strategies:

- Capital requirements
- Fund allocation
- Training and development
- Small, Medium and Micro Enterprises (SMMEs)
- Marketing and Communications
- Audience development

Capital Requirements

1. Prepare and implement a plan setting out the capital requirements (projected over a five year period).
2. Identify the sources of capital and what their relative contribution should be.
3. Develop and implement a plan that sets out how the capital will be raised utilising both public and private sector funds.
4. Develop and implement a taxation strategy, that will:
   - Stimulate growth in the industry;
   - Be based on a system that cannot be abused; and
   - Provide returns to government.
5. Develop and implement indicators to verify the progress of the industry and the impact of the interventions, on an annual basis.

Fund Allocation

1. Develop and implement a mechanism for allocating the funds in accordance with a predefined breakdown - the funds should be channelled into the following areas:
   - Local productions;
   - Co-productions;
   - Training and development; and
   - Distribution and marketing.
2. Develop and implement a plan for subsidising local productions, addressing:
   - Subsidy objectives in line with the industry growth and investment requirements;
   - Subsidy allocation criteria; and
   - Subsidy allocation and monitoring mechanisms to ensure transparency and accountability.
3. Develop and implement a plan for funding development of co-productions:
   - Review the existing co-production treaties and identify other potential co-production partners with similar expectations, objectives and compatible legislation; and
   - Create allocation and monitoring mechanisms to ensure transparency and accountability.

Training & Development

Design and implement a training and development plan to ensure our skills base is internationally competitive:

- Continuous skills-gap analysis to ensure a detailed understanding of the industry requirements;
- Develop and implement a plan to consolidate the training initiatives and leverage international relationships; and
- Tailor the training, focused on both the emerging and established industry sectors.

SMME Development

Research, design and implement a SMME development plan.

Marketing & Communications

1. Develop and implement a plan to market and promote South African product.
2. Develop and implement a plan to market and promote South Africa as a location.

3. Develop and implement a plan to market and promote South African talent.
4. Develop and implement a clear communications strategy, in conjunction with key stakeholders

The following key aspects should support the above-mentioned plans:

- Focus the campaign through one local touchpoint with the international market;
- Link up with existing promotional initiatives; and
- Focusing on developed and developing markets for co-production and foreign location shootings.

Audience Development

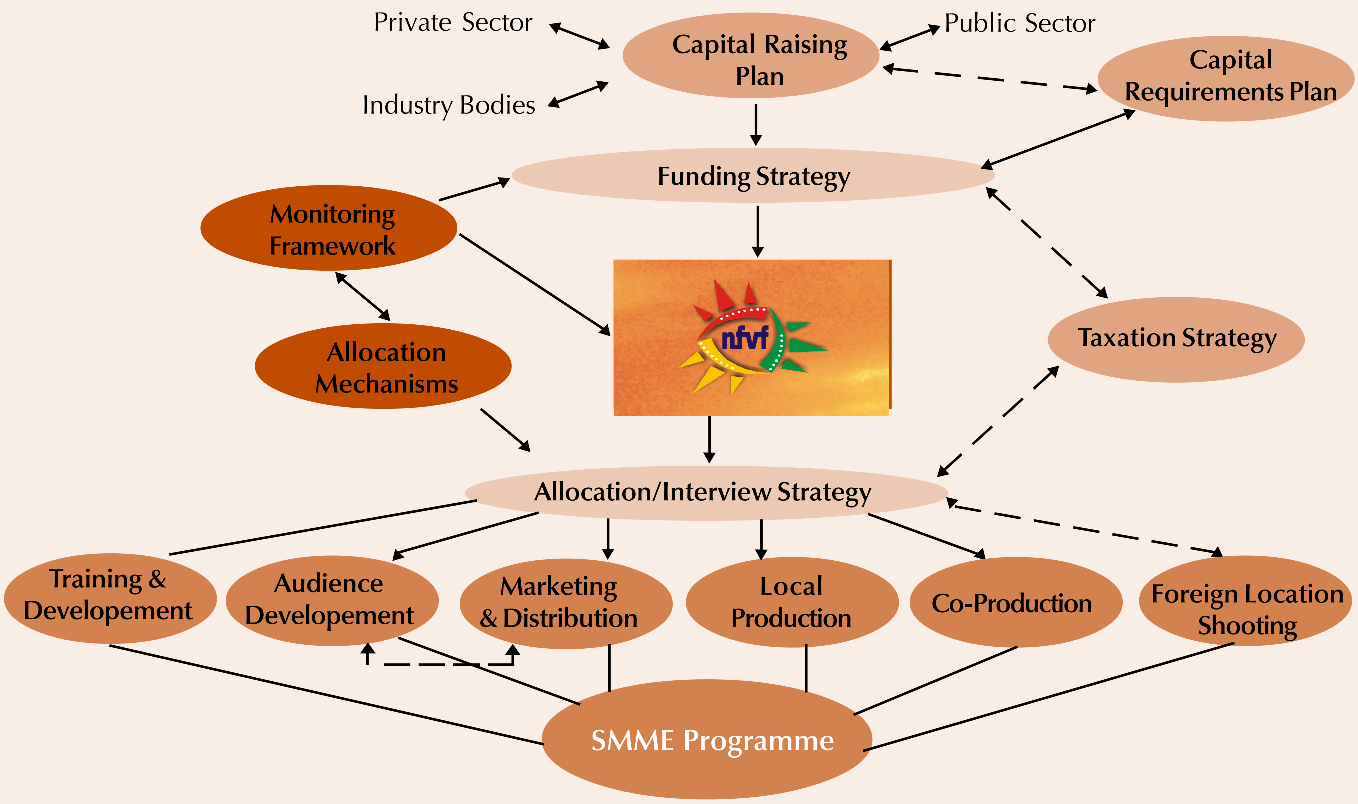
Research, design and implement an audience development plan, which will embrace existing and new audiences.

Critical Success Factors

There are a number of non-negotiable factors that will drive the successful implementation of the industry strategies:

- Strong NFVF leadership;
- Industry buy-in, involvement and ownership;
- Government buy-in, involvement and support;
- A properly structured marketing strategy (including focused "Film Offices");
- Properly sourced, allocated and managed funding and incentive mechanisms;
- Buy-in, support and a mutually beneficial relationship with training institutes;
- A foreign partnership strategy, including mutually-agreed commitment; and
- Industry's willingness to assist in developing a comprehensive industry profile through the provision of annual statistics and figures that can be used to measure the success of the industry.

All initiatives should be centrally coordinated and governed with involvement/input from all industry players as depicted below



Appendices

A The National Film & Video Foundation

The National Film and Video Foundation (NFVF) is a statutory body that has been mandated by Parliament to spearhead the development of the South African film and video industry. It was created by an act of Parliament, Act No. 73 of 1997, and was officially launched at Sithengi '99, the South African Film and TV Market.

The NFVF's vision is to strive for a quality South African film and video industry that is representative of the nation, commercially viable and encourages development. The NFVF aims to support this by creating an environment that develops and promotes the industry, domestically and internationally.

A 14 member Council, nominated by he industry, was elected by the Minister of Arts, Culture, Science and Technology to oversee the setup and management of the NFVF.

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B About the Department of Arts Culture, Science and Technology

Since its establishment in 1994 the Department of Arts, Culture, Science and Technology (DACST) has transformed the way in which Government views, supports and develops the arts and culture.

With the creation of a Ministry and Department of Arts, Culture, Science and Technology, Government has demonstrated its commitment to the arts, culture and heritage landscape through the creation of comprehensive and equitable national policy.

DACST's input into a number of national policy processes has ensured that culture and cultural development are included in the national tourism strategy and the Spatial Development Initiatives (SDIs) being created throughout the country.

Such is the success in effecting a national paradigm shift towards understanding the role of the arts and culture, that the Department of Trade and Industry (DTI) and the Department of Labour now include culture in their industrial and development strategies.

In just four years arts and culture have been redefined in the national psyche, from a limited Performing Arts Council debate into one where their role in economic and social development is increasingly recognised.

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C About PricewaterhouseCoopers

PricewaterhouseCoopers is the world's leading professional services organisation. Drawing on the knowledge and skills of 155,000 people in 150 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk and improve performance.

PricewaterhouseCoopers in South Africa has a dedicated Information Communication, Entertainment (ICE) practice that helps clients in these converging industries to gain a competitive advantage in the marketplace. This group of professionals is fully integrated into a global ICE practice and is able to bring world-class solutions to African problems. Service offerings include:

- Strategic consulting
- Performance improvement, including value-based management
- Technology solutions
- Taxation
- Corporate finance
- Transaction support
- Risk management
- Audit and accounting services

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