Published On: January 27th, 2020

Three ways investors can grow Africa's creative industries

Don't forget the creative industries in the race to unlock the growth and jobs Africa needs. When African politicians hit the campaign trail, job creation is often on their lips.

In 2020, a number of important elections, notably in Ghana and Côte d'Ivoire, will prompt big promises of jobs. This reflects the urgent need for job creation across the continent.
If high levels of joblessness weren't concerning enough, a surge in Africa's working-age population — expected to reach 1 billion by 2030 — will require job creation at a historically unprecedented scale. This Herculean task should keep African leaders up at night.
To keep pace with population growth, African countries must collectively generate 1 million jobs per month. They need to look beyond manufacturing and agriculture, typically associated as labor-intensive sectors, and add the creative industries to the priority list.
The arts – film, music, fashion, and handicrafts – underpin Africa's vibrant (yet oft-ignored) leisure and entertainment sectors, which are increasingly finding a global audience.

With complex value chains threading together multiple service providers, creative industries are a job multiplier and generate $4.2bn in revenue across the continent. Nollywood generates $600m annually for the Nigerian economy; employs indirectly more than 1 million people per year; and, in 2016, contributed about 1.1% to the country's GDP. Those industries are also recession proof, as they depend on local demand.
But, lying in the informal sector, creative industries need investment to grow and unleash catalytic potential. Here are three requirements to make investments a reality in Africa's creative sectors.

1 – Understand Value Chain Complexities

Creative industry value chains are highly complex, which can deter investors from investing, as assessing risk can be difficult. Production and distribution represent broadly the two sides of value chains, yet there are an array of activities tying the two together.

For example, a film value chain has seven steps: development; financing and pre-sales; production; post production, sales, licensing and distribution; exhibition and exploitation; and consumption. But, its complexity – which creates direct and indirect employment opportunities – is also its weakness. One player's underperformance — for example, sloppy post-production values or limited distribution — can jeopardise the entire production.

As creative industries are highly localised, value chains vary from one African market to another. In Nollywood, Nigeria's film industry, industry players assume multiple roles. Marketers, which not only finance movies, are often in charge of production and distribution.

This can increase risk in a production due to over-concentration and a lack of specialisation. Moreover, in Liberia's music industry, informal street vendors transfer music files to consumers' mobile phones for a fee. They serve as the retail outlet, but they are often overlooked by financiers because of their relative invisibility in the informal sector. If investors understand the complexities of creative industry value chains, they can develop new and relevant risk profiles before financing creative projects.

2 – Diversify investments across the supply chain and strategically use insurance products

Financiers can copy a venture-capital approach in the creative industry. Just like venture investors bank on one investment turning into a unicorn, a company exceeding $1bn in value, in slate financing, investors (typically high net-worth individuals) can fund a "slate" (portfolio) of films with the expectation that one can drive significant returns.

Investors are able to spread production risks, such as location mishaps, equipment malfunction and potential third-party property damage, across movies. In South Africa, the National Film and Video Foundation, a governmental agency, has provided slate financing for women- and black-owned film producers that would have otherwise lacked the funds to make their movies.

In addition to spreading risk, investors can strategically use insurance products to hedge against the non-completion of a creative venture. For example, a completion bond, issued to film producers, guarantees that a film finishes on schedule and falls within budget. Guarantors are protected from unforeseen losses as the film producer is legally bound to pay insurance premiums or offer a payout if a film goes overbudget.
Credit-wrapped bonds are also effective de-risking tools. These bonds, a form of credit enhancement, help reduce borrowing costs associated with film financing.

In 2018, Nairobi-based Heva Fund signed a credit investment deal with the French development agency, AFD, to advance credit and technical support for Kenya's creative industries. As creative industries cannot provide collateral to secure loans, new de-risking tools allay financiers' fears of potential default and allow for capital flows.

3 – Mitigate local monetisation problems with international distribution

Despite strong local demand for creative content, rampant piracy has undermined the growth of Africa's creative industries. Every year, Nollywood is estimated to lose $2bn to piracy. Regular flouting of copyright laws, impunity of offenders, and complicity of government institutions all play a hand in the illegal copying of creative works.
Innovations in international distribution have provided a fillip to Africa's creative industries, particularly music and movies. With the rise of streaming services, African creative producers can access a global audience, overcoming the historic obstacles of distribution.

Platforms like iROKOtv, a Nollywood movie streaming service, has viewership in 178 countries. Netflix's investments in African content have also been a game changer, with Nigerian blockbusters like Lionheart, The Wedding Party and Chief Daddy streaming on the global platform.

Music, possibly Africa's biggest creative export, is also enjoying an international moment. Beyoncé's latest Lion King album, featuring 10 African artists, further invigorated international appetite for African music. Investors are paying attention.

In 2018, TPG Growth, a multibillion-dollar US investment fund platform, acquired a majority stake in TRACE, Africa's leading media and entertainment company. Also last year, Universal Music Group opened a Lagos office as it searches for more local record deals.

There has never been a brighter moment for Africa's creative industries than now. The international success of Nollywood, increasing collaboration between African and American artists, and growing recognition of African art, underscore the need to take Africa's creative industries seriously. If properly financed, creative industries can take off and generate immense job opportunities.

The time is ripe for investors to acknowledge the dynamism and profitability of the creative economy.

By **Mobolaji Adeoye**
Founder/CIO of Consonance Investment Managers