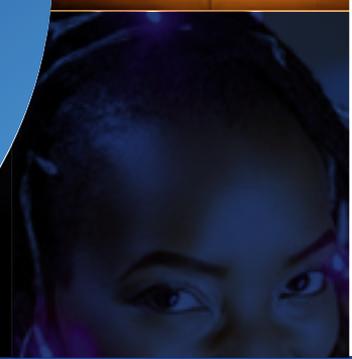


New Business Models for Financing the Creative Sector Research



Creating Value Through
Inclusive Finance

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Foreword

The creatives sector remains an important facet of the Kenyan economy, providing long-term employment to creatives with an immense potential for export earnings and extensive growth. Despite this, the sector has faced an apparent challenge in accessing finance, compounded by other adverse market factors.

It is in this light that this report takes a deep dive into the creative sector, its characteristics, the challenges faced by the players and explores broader market interventions aimed at improving the operating environment of the creative sector as well as possible financial solutions that can address the specific pain points regarding lending to creatives.

The report is facilitated by Art at Work Limited – the company works to create sustainable employment as well as income opportunities in the creative and sports sectors. Art at work partnered with the Kenya Bankers Association (KBA) to find ways in which the creative sector could be included in financial services to develop measures through which creative sector needs and challenges could be addressed through institutional frameworks and policy, capacity development, training and new products. Art at Work reached out to Financial Sector Deepening Kenya (FSD Kenya) to assist in the financial inclusion of creatives in Kenya. Art at Work and KBA reached out to the government and developed various partnerships with various state departments.

These include the State Department of Culture, Heritage and the Arts in the Ministry of Sports, Culture and Heritage (MOSCA), State Department of Broadcasting

and Telecommunications in the Ministry of ICT, Innovation and Youth Affairs, the Credit Guarantee Scheme under the National Treasury, Business Registration Services under the Office of the Attorney General and Department of Justice. FSD Kenya, on behalf of Art at Work and KBA, commissioned research into financing models of the creative economy through Genesis Analytics. This research has been informed by stakeholder engagements with KBA, Art at Work, MOSCA, banks and various players within the creative sector and complemented with a survey of creatives within different creative sub-sectors.

While this report uses various primary and secondary resources to arrive at its conclusions, further research needs to be done to develop more nuanced insights into creative value chains with great potential for export revenue and employment such as music and film.

Aside from the evident need for this research, this report is timely as 2021 was recently declared as the ‘International Year of the Creative Economy on Sustainable Development’ by the United Nations. Moreover, the African Union declared 2021 as the ‘Year of the Arts, Culture And Heritage: Levers for Building the Africa We Want’. Much closer to home, the 2021/2022 Kenya Budget theme is “Building Back Better: Strategy for Resilient and Sustainable Economic Recovery and Inclusive Growth”. Given Kenya’s vibrant creative industry, its potential for improving livelihoods and reducing unemployment, different stakeholders within the Kenyan economy need to come together to nurture a favourable operating environment for the creative sector!





Executive Summary

The Kenyan market hosts a vibrant, varied creative sector with creatives in multiple sub-sectors such as crafts, design, film/motion picture, music/sound recording, performance arts, photography, visual art among others. Creative enterprises play a unique role in building cultural cohesion, expressing cultural identity, as well as being an important source of jobs and export earnings. Creative enterprises in Kenya are primarily informal with little incentive to register their operations.

Most creatives participate in smaller value chains where payments can be made in cash or through mobile money. Additionally, entrepreneurs within the creative sector typically lack business and entrepreneurial skills, which reinforces the tendency towards informality. This is demonstrated in survey results as well, where only 12% of respondents reported having registered their business. Using a combination of secondary sources, we have estimated that there are 275,375 creative enterprises in Kenya. Of these, 44,614 are registered, translating to a formalisation rate of approximately 16%.

The three largest components of this estimated market sizing are the crafts sub-sector, the music/sound recording sub-sector and the fashion design sector. Survey results indicate that lack of access to finance is the biggest challenge faced by creative enterprises, followed by lack of access to market and low levels of support from the government. Although many creatives cite access to finance as a challenge, few of them believe their businesses have the steady cash flows required to pay back debt. Primary data research reveals creative enterprises largely rely on informal sources for funding such as loans from family or friends.

Some creative enterprises rely on digital loans from MPESA loan services as well as digital lending applications. It is worth noting that none of the survey respondents reported using a credit product, despite 64% of respondents having a personal/business bank account for their enterprise. Many respondents open bank accounts primarily to secure contracts with corporate clients and not as a means of securing financing from banks. Survey results indicate that 55% of creative enterprises require between KES 100,000 and KES 1,000,000, an amount generally exceeding the maximum allowable loan amount by most digital lending services.

Generally, stakeholders complain of limited support from the government as well as relevant associations. Most creative entrepreneurs are unaware of any government initiatives aimed at driving growth within their sectors, with fewer still participating in any such government initiatives. Only 3% of respondents within the survey reported benefiting from government initiatives. In as much as creatives clearly need financial solutions tailored to their needs, there is an even greater need to address the market development and institutional constraints that impede growth of the market. These interventions regard training and skills development, industry development initiatives and grants, improvement in copyright and royalty management. Potential financial solutions may need to be focused around incorporating the widely-adopted MPESA platform, using targeted banking products, investing in the arts as part of banking activities and partnerships with development partners. National initiatives such as the national credit guarantee scheme need to be modified to specifically target creative enterprises as well.





Chapter 1

Introduction



Although precise definitions and market sizing for the creative industries are by definition complex, the creative industries are generally recognised as contributing up to 4% of global GDP¹, a share that continues to expand, as societies become wealthier, and patterns of consumption of creative products and services change.

Not only do the creative industries play a unique role in defining how societies see themselves and in building cultural cohesion, but they can also be an important source of jobs and export earnings. According to the Kenya National Bureau of Statistics (KNBS), businesses in the arts, entertainment and recreation sector have the highest average life of 10.1 years among all enterprises in Kenya.²

As much creative product and distribution has become increasingly digital, creative industries now also have the potential to reach global audiences and meet the needs of consumers in businesses around the world. It is thus fitting that developing the cultural industries plays a role in Kenya's economic development and that the Financial

Sector Deepening Trust (FSDT) that seeks to understand the role of finance in economic development, has commissioned this study of financing "gaps" within the creative industries in Kenya.

This report commences with a discussion of definitions of the creative industries and identifies the creative industries of most interest in Kenya, and distinguishes their financing needs and potential contribution to the economy.

We then proceed to analyse the structure of each of these industries using a value chain approach and to identify the areas in which financing is required. We then probe the extent of the existing financing options in each of the industry value chains through interactions with stakeholders both in Kenya and with reference to other markets such as Nigeria and South Africa. This qualitative analysis is supplemented with a quantitative analysis that brings together what data exists on the size of these markets in Kenya. Finally, we move to provide recommendations on financial products and support opportunities that can be identified in the Kenyan market.



1. How the creative economy can help power development, UNCTAD. Available [here](#)

2. Micro, Small and Medium Enterprises Survey, KNBS. Available [here](#)



Chapter 2

Definitions and Focus Areas

2



In this report, we have broken down the creatives sector through two main lenses:

- **Value chain category: this break down examines the creative sector through four main categories - creation, production, dissemination and exhibition.**
- **Industry sub-sector: this break down examines the creative sector through the various subcategories such as music, crafts, visual art, that make up the creative sector.**

For the purposes of this assignment, we focus more using the latter categorisation as it allows us to delve deeper into the creatives industry and outline the nuances of each sub-sector.

Discussion by Value Chain

In 2009, the United Nations Educational, Scientific and Cultural Organization (UNESCO) framework for cultural statistics proposed a creative-based value chain that aims to capture the process of value creation within and across four broad domains, namely:

- **Creation** - origination and authoring of ideas and content.
- **Production** - making and production of cultural works

- **Dissemination** - distribution of production to consumers and exhibitors
- **Exhibition and consumption** - provisions of live and/or unmediated experiences to audiences through granting or selling restricted access to consume

The growth of the creative sector is plagued by a number of challenges in developing countries that impact the whole value chain. This range from negative attitudes towards the creative sector; a lack of clear linkage between the education system and the cultural industry; poor protection of intellectual property; underdeveloped cultural infrastructure and institutions; and a lack of statistical data on the actual performance and diversity of the creative industry.

The COVID-19 pandemic has equally had a devastating impact on the industry through the restrictions on public gatherings, night-time curfews and closures of key institutions which have eliminated many revenue sources for creatives. Given these challenges, it is no surprise that for many parts of the sector, access to finance is a further challenge. The types of finance and the difficulties in accessing finance vary in the different categories of creative industries.



The table below summarises the key characteristic differences across the value chain, the unique financial needs and the resulting likely sources of finance.

TABLE 01

Finance Supply Across Creative- Based Value Chain

	Creation	Production	Dissemination	Exhibition
Characteristics	<ul style="list-style-type: none"> Youth Individual or informal sole proprietor Limited asset endowment 	<p>Established Enterprise</p> <ul style="list-style-type: none"> Large corporate Formal business Fully paid equipment (though may be out of date) <p>New Enterprise</p> <ul style="list-style-type: none"> MSME Rented/leased equipment Rent space 	<p>Traditional</p> <ul style="list-style-type: none"> Medium to large corporate Formal business Established premises <p>Local ICT</p> <ul style="list-style-type: none"> Formal and informal MSME <p>Large multinational corporation</p> <ul style="list-style-type: none"> Registered outside of Kenya <p>Digital</p> <ul style="list-style-type: none"> Local and international platforms 	<p>Established enterprise</p> <ul style="list-style-type: none"> Medium to large enterprises with exhibition premises- galleries, theaters, concert halls Formal, well-capitalised business
Demand for Financing	<ul style="list-style-type: none"> Day to day needs Transportation Laptop/phones Supplies and expenses 	<ul style="list-style-type: none"> Equipment property /studios Software Vehicles Working capital 	<ul style="list-style-type: none"> Working capital Software 	<ul style="list-style-type: none"> Property Working capital

Current Sources of Financing

Debt	<ul style="list-style-type: none"> Personal loans Mobile money loans 	<ul style="list-style-type: none"> Asset finance Mortgages Cash Flow lending /trade finance 	<ul style="list-style-type: none"> Government SME credit guarantee scheme 	<ul style="list-style-type: none"> Commercial loans Assets finance Mortgages Cash flow lending/ trade financing
Equity	<ul style="list-style-type: none"> Crowd-funding 	<ul style="list-style-type: none"> Venture capital Private equity Capital markets Crowd-funding 	<ul style="list-style-type: none"> Venture capital Private equity 	<ul style="list-style-type: none"> Venture capital Private equity
Informal	<ul style="list-style-type: none"> Personal savings Family/friends Busking 	<ul style="list-style-type: none"> Personal savings Family/friends 	<ul style="list-style-type: none"> Personal savings 	N/A

As per the table above, some key emerging insights are as follows:

- **Informality is a challenge** - High levels of informality which translates to likely undocumented contract arrangements, and payment in cash or mobile money. This translates to limited visibility or bankability. Similarly, revenues of artists vary widely with established and popular artists/ creators able to draw in large revenues, but the vast majority of creators living on very low revenues. In the music industry in particular, there are huge returns to global success, but many artists with potential struggle to survive in the industry long enough to reap these rewards.
- **Lack of business skills and entrepreneurial competence** - Creatives and the businesses they support across the value chain might not be able to effectively communicate a clear business plan on how they will monetise their creativity. This may have a knock on effect across the value chain, resulting in a perceived low return on investment. This coupled with limited historical data on the industry make it difficult for financiers to value the opportunities and risk adequately. Moreover, it may also be true that creatives are particularly poor at dealing with matters of finance and maths.
- **Use of alternative collateral** - Access to traditional collateral assets of land and vehicles may be limited. Creatives' use of alternative assets such as cameras, laptops and software, though critical to their trade, may not be valued or understood by financiers. As a result, financiers have not attempted to tailor asset financing products for these specific assets, or would not accept them as collateral for additional loans.



Discussion by Industry Sub- Sector

UNCTAD3 defines creative industries as “cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs; constitute a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights; comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives; are at the cross-road among the artisan, services and industrial sectors; and constitute a new dynamic sector in the world trade”. The definition of “creative industries” also often extends to include elements of the media and ICT sectors.

The table below shows the range of industries that have been included within the definition of the creative industry used in different studies. Our focus in this report is on those sub-sectors that have specific financing needs or product cycles that are unique to the creative industries and require distinct support requirements that differ from the business development or financial services used by other forms of professional services. We also focus on which industries have economic development potential by way of being a digitally tradable service.

The highlighted rows are the subcategories that are included in the definitions of the creative industries in all the above studies and/or are relevant in the Kenyan context.

TABLE O2

 Classification of Creative Industries⁴

Creative Industries	DCMS (2009) ⁵	WIPO Copyright Industries (2003) ⁶	Eurostat LEG (2000) ⁷	KEA European Affairs (2006) ⁸	UNCTAD (2010) ⁹	European Parliament (2016) ¹⁰	NESTA (2015) ¹¹	Score
Printing		X			X			2
Publishing	X	X	X	X	X	X	X	7
Advertising and related Services	X	X	X	X	X	X	X	7
Architecture and engineering	X	X	X	X	X	X	X	7
Arts and antique markets/trade	X	X			X			3
Crafts (artistic)	X	X	X	X	X	X		6
Design/specialised design services	X	X	X	X	X	X	X	7
Designer fashion and high-end industries	X	X			X	X		4
Film/motion picture and video industries	X	X	X	X	X	X	X	7
Music/sound recording industries	X	X	X	X	X	X	X	7
Performing arts (theatre, dance, opera, circus, festival, live entertainment) independent artists, writers and performers	X	X	X	X	X	X	X	7
Photography	X	X	X	X	X	X	X	7
Radio and television (broadcasting)	X	X	X	X	X	X	X	7
Software, computer games and electronic publishing	X	X	X	X	X	X	X	7
Heritage/cultural sites (libraries and archives, museums, historic and heritage sites, other heritage institutions)			X	X	X	X	X	5
Interactive media			X	X		X	X	4
Other visual arts (painting sculpture)			X		X	X	X	4
Copyright collecting societies				X				1
Cultural tourism/recreational services				X	X			2
Creative R&D					X			1
Public relations and communication activities/translation and interpretation								0

4. The Economic Impact of the Creative Industry in the European Union, Drones and the creative industry. Available [here](#)

5. Creative Industries Economic Estimates Statistical Bulletin 2009, DCMS. Available [here](#)

6. Guide on Surveying the Economic Contribution of the Copyright-Based Industries, WIPO. Available [here](#)

7. Cultural statistics in the EU, LEG Eurostat. Available [here](#)

8. The economy of culture in Europe, KEA. Available [here](#)

9. Creative Economy, UNCTAD. Available [here](#)

10. Report on a coherent EU policy for cultural and creative industries, European Parliament. Available [here](#)

11. Creative economy employment in the EU and the UK: a comparative analysis, NESTA. Available [here](#)

The next table provides a more detailed breakdown of the structure and needs of these different cultural industry sub-sectors

TABLE 03
Business characteristics by key sub-sectors

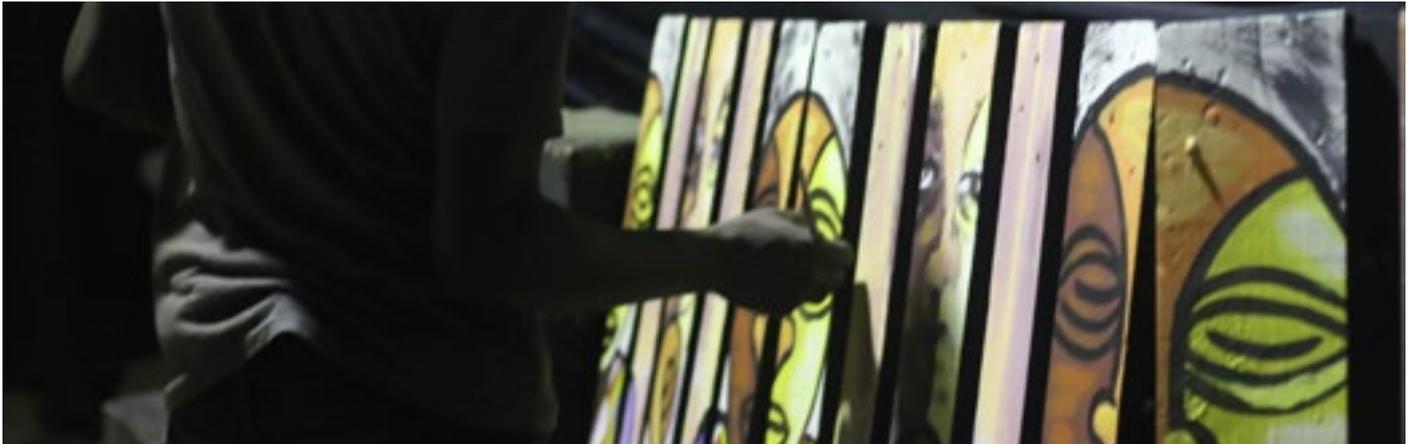
Creative Industries	Narrative	Entry Criteria	Development Needs	Financial Needs	Distribution Challenges	Main Platform
Crafts (Artistic)	African craft is seen as an important source of revenue for many small business and entrepreneurs, and benefits from the tourist industry	Low-many participants come from rural communities and run small businesses	Distribution platforms and business skills training digital access	Medium-small business loans for bulk production	Access to retail channels	1stdibs Etsy Amazon Alibaba
Design/specialised design services	Is a business service that is increasingly traded online and generates a source of domestic and export earnings for qualified professionals and small businesses	Low-participants need access to design training mainly individuals and small businesses	Qualifications and small business training skills digital access	Low		Freelancer Upwork Skillshare
Designer fashion and high-end industries	Is an increasingly globally traded business with designers working with specialist producers for both local and international markets	Low-participants need access to design training mainly individuals and small businesses	Qualifications and small business training skills digital access	Medium	Access to high-end consumers and industry decision makers	Net-A-Porter Farfetch 1stdibs Browns Fashion The Folklore Ananse Africa
Film/motion picture and video industries	A highly specialised industry with significant financing needs	High-complex industry with significant capital and project related financing across the value chain	Qualifications, funding and distribution	High	B2B relationships	Netflix Showmax HBO Huku Disney+ Local TV
Music/sound recording industries	A highly specialised industry with significant financing needs	Moderate distribution requires financing	Distribution platforms and business skills training digital access	Medium	B2B relationships	Spotify Deezer Soundcloud Audiomack Boomplay Mixcloud Apple Music
Performing arts(theatre, dance, opera, comedy)	A highly specialised industry with modest financing needs	Moderate actors benefit from specialized	Availability of facilities and sponsorship	Low mainly grants	Direct to consumer marketing	Facebok Youtube Instagram Patreon
Photography	Maily a niche business for indivudl specilaists who sell services online	Low-maily individuals who can afford camera equipment	Distribution platforms and business skills training digital access	Low	Access to retail channels	Shutterstock Instagram Artsy
Radio and television (broadcasting)	Domestic market is limited, but inputs into the film business. Financing opportunities around channels and programming	Moderate distribution requires financing	Channel funding and production budgets	High - but based on business plan	Branding and marketing	NTS.Live Radio AlHara
Other visual arts (painting, sculpture)	Visual artists normally work individually and are supported by a chain of virtual and online galleries	Moderate most successful artists have a formal training. Galleries funded by wealthy patrons	Qualifications and small business training skills digital access	Low		Saatch Art 1stdibs Singulart Artfinder



Hereunder, we provide some narrative on the particular characteristics and challenges across the different value chain industry sub-categories



Crafts



Overview and Value Chain

Kenya has a vibrant arts and crafts industry which may originally have been stimulated by the tourist industry but now also exports a large number of artefacts to craft connoisseurs and craft markets around the world. This industry involves many small and medium scale businesses involved in the production, distribution and sale of these artefacts. Most participants in the value chain have low levels of formal education and their main challenges are those of any small and often informal business involved in the production and sale of goods.

Stakeholder interviews confirm that most participants use brick and mortar outlets to sell their products. While some have moved their presence to online channels (as a consequence of the pandemic), most still use flea markets and other open markets to distribute their products.

Operational Challenges and Access to Finance

A major challenge is plagiarism of craft design. Patenting and copyright structures are not typical structures within the crafts sector and so participants in this industry often duplicate designs of competitors and produce crafted items in bulk to maximise profits.

As the overwhelming majority of these enterprises are micro in nature, it's unlikely that they will approach banks for formal financing. The implication is that funding will

likely come from family/friends, mobile money lending and digital lending applications. Some participants in the industry may obtain funding from NGOs for their activities. Enterprises within this sub-sector require micro loans.

Industry Sizing

There are 151,862 enterprises in this sub-sector - this consists of 15,186 registered enterprises.¹²

Support Ecosystem

Generally, there is a weak support system within this sector with stakeholder engagements and survey results indicating that participants are not aware of any government initiatives aimed at supporting their businesses. Additionally, due to their micro/informal nature, most enterprises within this sub-sector will not be able to participate in credit guarantee schemes, which typically require registered businesses.

Business Development Opportunities

The business development opportunities within this sector are therefore:

- Formalisation of the business and better business management skills
- Improved direct and digital market of products on platforms
- Access to finance in the form of working capital and domestic and cross border payment services

¹². Methodology is explained in the industry sizing section below



Design



Overview and Value Chain

The design industry involves all aspects of design of physical or digital products - extending from the design of motorbikes to interior design to graphic design. Industrial design is mainly concentrated in countries with large manufacturing sectors, and is thus unlikely to be a focus in Kenya. However, digital graphic design is a growing business sector locally and globally, in which individuals can participate. Additionally, with a budding real estate sub-sector, interior design is increasingly becoming a space where individual creatives can participate in.

Both interior design and graphic design value chains have a considerable number of freelance participants, and so present relatively few opportunities for other participants. Entry into the market generally requires formal qualifications and training and access to high quality software. The industry is dominated by small boutique firms that establish relationships with regular users of design services - such as advertising and marketing agencies. Once established, these boutiques share many characteristics with other small professional service businesses.

Operational Challenges and Access to Finance

Freelance creatives within this space typically face delayed payments from their clients, making it difficult to maintain a sustainable means of living. Additionally,

these delayed payments may adversely affect freelance graphic designers looking to acquire better equipment for their businesses. Interior designers particularly lack financing for their activities. Similar to fashion designers, the banks find it difficult to assess their creditworthiness and so they are not able to acquire adequate financing to actualise their design ideas.

Industry Sizing

There are 1,525 enterprises within this sub-sector - this consists of 360 registered enterprises.¹³

Support Ecosystem

Most participants in this sub-sector are very entrepreneurial and rely on their networking skills to source opportunities and suppliers. Trade shows and expos are important for sales.

Business Development Opportunities

The business development opportunities within this sector are therefore:

- Provision of appropriate training for professionals wishing to enter the field
- Business management skills for boutiques
- Formalisation of business and better business management skills.

¹³. Methodology is explained in the industry sizing section below



Designer Fashion



Overview and Value Chain

The designer fashion sub-sector involves all aspects of design of clothes, shoes and to some extent, accessories. The sub-sector has a unique value chain due to the manner in which the final output is priced to the market; this pricing mechanism is partially determined by the quality of raw materials used, total labour hours used in the design process and the reputation of the designer. The sub-sector is dominated by small boutiques which develop lasting relationships with their clientele, often making products exclusively on order. The value chain also presents increased employment opportunities with tailors and designers.

In 2016, HEVA released the Fashion Value Chain Report exploring the nascent fashion value chains in Kenya through a series of key stakeholder interviews with market actors, consultants, financiers, stakeholders and upstream players.¹⁴ The report found that most respondents had pursued tertiary studies in disciplines such as law, engineering, business and other non-design-related fields. Additionally, most designers benchmarked their garments against established production houses along with abundant second-hand importing clothing.

Operational Challenges and Access to Finance

Cost of materials has been a major challenge for this industry. The HEVA report revealed that most fashion designers imported prices due to uncompetitive local prices which made the total cost of imported fabrics lower than the price points of locally manufactured textiles. Stakeholder engagements confirmed the same,

while also citing a limited governance framework for pricing in the textile industry, contributing to the high cost of materials. The HEVA report established that 90% of respondents relied on self-financing with 50% of respondents unwilling to approach commercial banks for credit; key reasons behind this hesitation included complicated paperwork, lack of collateral, a lack of understanding on the mechanisms of the loans as well as uncertainty on loan eligibility. Another key barrier experienced is the high cost of local raw materials, pushing players within the industry to import raw materials. Stakeholder engagement confirmed this, with respondents normally accessing funding from family and friends as they try to scale their businesses.

Industry Sizing

There are 59,483 enterprises within this sub-sector - this consists of 14,038 registered enterprises.¹⁵

Support Ecosystem

In general, the support ecosystem remains weak with vague government policies regarding pricing of raw materials within the market. Additionally, there is no association body for fashion enterprises in Kenya, further limiting the sub-sector's ability to lobby for reform within the industry.

Business Development Opportunities

The business development opportunities within this sector are therefore:

- Better business management skills
- Improved digital market of products on platforms
- Access to finance (working capital)

14. Fashion Value Chain Report, HEVA. Available [here](#)

15. Methodology is explained in the industry sizing section below





Film/ Motion Picture



Overview and Value Chain

Kenya has a growing film industry that has enjoyed some success on the local and international stage. Locally, Kenyan-made series and films are currently hosted on multiple local TV stations such as NTV, KTN and Citizen TV. A number of locally produced series and films have also been featured on international digital streaming platforms such as Netflix and Showmax.

The industry has experienced some degree of support from the local government. In 2014, the Kenyan government passed a regulation requiring 40% of content on TV and radio to be sourced from local players.¹⁶ In 2016, the Communications Authority of Kenya passed a regulation requiring all broadcasting stations to ensure their 60% of their programming is local content within four years of receiving a licence.¹⁷

The industry has a mix of players, with most of the finished products coming from established production houses within the country. The value chain employs multiple people at multiple components of the value chain, offering employment opportunities.

Operational Challenges and Access to Finance

The main challenge faced in this sub-sector is access to finance. Stakeholder interviews revealed that the filming industry lacks sufficient investment, with most filmmakers relying on grants and networks to make films. Grants are usually obtained from NGOs promoting filming in Kenya as well as funding as part of participation in film festivals. However, it is worth noting that the proliferation

of digital streaming platforms is currently providing an opportunity for filmmakers to pitch their ideas to these platforms and therefore provide a sustainable means of funding their films.

Additionally, players within this sub-sector face a challenging enabling environment. Taxes on equipment are high, with multiple licensing requirements, costly filming fees as well as red tape that hinders production. While the Kenya Film Commission (KFC) has a mandate to address these challenges, stakeholder engagements reveal that players within the industry feel that these challenges are yet to be addressed. Kenyan filmmakers seeking to attract foreign business compete with the more established South African industry that enjoys Government subsidies. Moreover, improper business practices adversely affect this industry. Stakeholder engagements revealed that aggressive practices in production companies may lead to somewhat exploitative contracts between companies and crew, as well as monopolised relationships between established enterprises and TV broadcasters.

Industry Sizing

There are 64 enterprises within this sub-sector - all are registered.¹⁸

Support Ecosystem

As a consequence of trying to put up their films, participants in the film industry have attempted to network amongst themselves to leverage each other's resources. However, the industry lacks a recognised association

16. Regulation on airing of 40% local content for broadcasts, UNESCO. Available [here](#)

17. Kenyan broadcasters must apply 60% local content quota, Telecompaper. Available [here](#)

18. Methodology is explained in the industry sizing section below

to drive the interests of participants within the industry. NGOs such as the British Council have been able to provide support to the sector through the provision of funding through grants and technical assistance to participants within this sector. Stakeholder engagements reveal that government support is limited within this sub-sector with costly filming fees, restrictive policies regarding filming locations and few government initiatives that effectively drive growth. However, with most players in this industry

being registered with a need to maintain proper financial records for their contracts, this sub-sector may potentially greatly benefit from a credit guarantee scheme.

Business Development Opportunities

The business development opportunities within this sector are therefore:

- Access to project finance, working capital and asset finance
- Better business management skills



Music/Sound Recording Industries



Overview and Value Chain

The industry involves a relatively intricate system of participants with creative content generation, production, content rights management and collection, and the distribution of content across different and evolving channels. Participants within this value chain include creators (singers, songwriters and producers), artist managers, record labels and publishers/distributors.

Much like the film industry, the Kenya music industry has seen significant growth in the local and international stage. One of the key drivers for this growth is the use of digital platforms to increase artist visibility. Internet penetration in Kenya stood at 40% in January 2021.¹⁹ Additionally, there are 11 million social media users, equivalent to 20.2% of the total population. Unfortunately, very few of these users subscribe to paid services. Although entry costs for musicians are low, building sustainable incomes is extremely difficult given high levels of piracy

(of physical and digital media) and the complexity of gathering royalties from different channels. By 2022, total music revenue is expected to reach USD 35 million in 2022, at a CAGR of 9.8% from 2017, with the bulk of growth coming from recorded music revenue - the vast majority of which is derived from mobile ringback tones. Safaricom, the largest telecom in the country, has about 25 million users, with international music labels becoming increasingly involved in the Kenyan market.²⁰

Operational Challenges and Access to Finance

Data from the survey indicates that the largest obstacle faced by creatives in the music sub-sector is lack of access to finance. Most artists have relied on personal savings and funding from family and friends to finance their enterprises. A significant proportion of artists have relied on working multiple jobs to raise enough

19. Digital 202 Kenya, Hootsuite. Available [here](#)

20. PwC released the Entertainment and media outlook: 2018 - 2022, An African perspective detailing the trends shaping the entertainment industry in Africa. The report expects the TV market revenue to grow at a CAGR of 6.1% from USD 191 million in 2017 to USD 385 million in 2022.

21. Poverty headcount ratio, World Bank data. Available [here](#)

money to produce their music. As a consequence of a limited regulatory framework, Kenyan artists are unable to generate enough income to sustain themselves (explained in detail in the support ecosystem section below).

Consequently, artists typically make music for a period of time then give up on their venture when income from royalties does not meet their needs. Additionally, this low income also hinders artists' capability to afford the quality production standards required to compete with global acts as a consequence of the high cost of good quality music production. In as much as digital distribution channels have provided musicians with the ability to distribute their music globally, adoption of streaming platforms among Kenyans has been relatively low. With the internet penetration at 40% and 37% of the population living below USD 1.90 per day (2015)²¹, most of the Kenyan population is unable to afford streaming services.

Even among the population that is able to, most prefer using the free versions of digital service providers (DSPs) such as the free version of Spotify. DSPs typically pay less for streams from free accounts. Additionally, many of these platforms do not offer the ability to pay with the payment instruments Kenyans mainly have access to, principally MPESA. The implication is that artists may have to look to concerts and live performances to bring in sustainable revenue. Furthermore, increased piracy affects the ability of artists to monetize their work; search engines, online downloading sites and stream ripping sites play a key role in copyright infringement. In 2017, the

world's largest audio-ripping site, YouTube-MP3.org, was shut down; the site had an estimated 60 million visitors per month and was estimated to be responsible for over 40% of all illegal audio-ripping.²² As a consequence of a limited policy framework regarding intellectual property, the same is particularly the case in Kenya, where piracy of content is rampant.

Industry Sizing

There are 62,140 enterprises within this sub-sector - this consists of 14,665 registered enterprises.²³

Support Ecosystem

Kenyan musical artists have cited a limited support framework that adequately compensates them for their work. In 2020, prominent Kenyan artists complained that they had been offered just over USD 25 each in royalties for the year of 2020 from the Music Copyright Society of Kenya (MCSK) for their music.²⁴ In the wake of this, the Kenya Copyright Board revoked MCSK's operating licence after the society failed to submit a complete authenticated list of members.²⁵ The implication is that artists early in their careers may not be able to access sustainable sources of revenue apart from concert performances.

Business Development Opportunities

The business development opportunities for this industry are therefore:

- Better income support for musicians given the slow pace at which royalties grow
- Better formalisation of royalty management services
- Formalisation of enterprises and business skills management for production houses and concert organisers

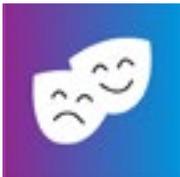


22. Major YouTube audio-ripping site agrees to shut down after getting sued by labels, The Verge. Available [here](#)

23. Methodology is explained in the industry sizing section below

24. Why MCSK paid Kenyan artists Sh2,500 as royalties, The Star. Available [here](#)

25. Kenya: MCSK loses licence to collect royalties, Music in Africa. Available [here](#)



Performing Arts



Overview and Value Chain

The performing arts industry involves all theatrical, dance and comedic performance on a live stage. The industry has seen minimal growth over recent years, primarily due to a challenging business model. In contrast to film and television where contracts can be signed before production (securing some revenue), performance arts heavily rely on sponsorship, grants and ticket sales. The implication is that performance arts companies may find it difficult to set up sustainable business models for their companies.

Currently, there is no existing literature on government/association support for performance arts within Kenya, enterprises within this sector lack the adequate support ecosystem to sustainably grow. Most of the incomes that participants in this sector receive comes from applying their skills in the film and music business. The industry is dominated by production houses, as a consequence of the cost of putting up the live shows. These production houses depend on existing capital and sponsorships for their operations

Operational Challenges and Access to Finance

The largest impediment to enterprises within this sub-sector is access to finance. These enterprises rely largely on advance ticket sales to fund current activities, with some artists relying on income from other ventures or personal savings as part of the initial capital to put up their shows. Additionally, the capital requirements of putting up a show are quite large, and so micro-loans from digital

applications is not a sustainable form of financing. It is worth noting that participants within this sub-sectors have largely been unable to transition their activities to online distribution channels. This is principally due to the lack of social interaction that typically occurs when people attend a live performance. Consequently, online performances have not attracted the same crowds as physical live performances. Additionally, another impediment is the lack of performance venues. Kenya has only one national theatre that offers a venue to local performing artists to put up their performances at subsidised prices. However, a preference for corporate clients (who pay a premium for the venue) and a vague booking process has led to limited use by local artists. Additionally, live event organisers typically use unsuitable venues such as football/rugby fields for live events.

Industry Sizing

There are 64 enterprises within this sub-sector all enterprise are registered.²⁶

Support Ecosystem

There is a limited support framework for live artists in Kenya. Stakeholder interviews and survey results indicate that participants in this sub-sector are unaware of any initiatives by the government/associations to support this sector.

Business Development Opportunities

The business development opportunities for this industry are therefore:

- Access to sponsorship
- Access to formal training in drama and music

26. Methodology is explained in the industry sizing section below



Photography



Overview and Value Chain

The photography industry has experienced moderate growth in recent years; the sector comprises individual photographers working in niche markets. The sector is largely comprised of informal enterprises. Consequently, there is no documentation of a supporting government ecosystem. Nevertheless, there exists the Photographers Association of Kenya, which seeks to offer collective bargaining on behalf of photographers, capacity building, community impact and industry linkages with the aim of supporting photographers. Entry requirements vary, with the relevant equipment varying in price. One key characteristic of this sector is the use of online channels almost entirely for their marketing and distribution. As previously mentioned, the increasing internet penetration in Kenya provides more opportunities for this industry.

Operational Challenges and Access to Finance

One major challenge faced by players in this space is the capital requirements for the necessary equipment for high-quality work. As the world evolves and technological advances in technology, the demand for high-quality visual work has increased; the implication is that photographers require quality cameras to produce quality images. Additionally, necessary equipment such as lenses, lighting, tripods and reflectors are also other capital expenditures that players need to keep in mind. Furthermore, a challenging enabling environment has also been an impediment to players within this space. Stakeholder engagements and surveys reveal that authorities harass photographers, typically in the central business district within Nairobi, citing vague policies

laws. Moreover, creatives within this space state that there is no evidence of government initiatives aimed at driving growth within the photography industry. Finally, stakeholder engagements revealed that creatives within this space are subject to delayed payments from clients. As most of the players in this space operate as freelancers, they are typically hired by advertising agencies. Some agencies may even take over three months to fully pay creatives for their work, presenting capital challenges for creative enterprises. As a consequence of trying to maintain cordial relationships with agencies, photographers are unlikely to take up any action against them for late payments/breach of contract.

Industry Sizing

Due to the sub-sectors high rate of informality and limited information, this sub-sector cannot be reliably estimated.

Support Ecosystem

As mentioned above, creatives within this space are largely unaware of any government initiatives aimed at supporting them. Additionally, harassment from authorities as well as vague policies regarding non-photography spaces has been an impediment to creatives within this space. The key association body under this sub-sector is the Photography Association of Kenya. However, survey results indicate that creatives cite that it is costly to join this association. Consequently, the body may not be as effective at delivering its mandate to members.

Business Development Opportunities

The business development opportunities for this industry are therefore:

- Formalisation of business and business management skills
- Knowledge of how to protect rights for digital assets



Radio and Television



Overview and Value Chain

Radio and television have seen significant growth in Kenya in recent years backed by a strong, consistent economy. These sub-sectors are subject to considerable regulation in Kenya; as mentioned above, the Communications Authority of Kenya passed a regulation requiring all broadcasting stations to ensure their 60% of their programming is local content within four years of receiving a licence.

The TV sub-sector is supported by considerable growth in advertising revenue, which accounted for 30.8% of total TV revenue in 2017.²⁷ Advertising is expected to make up 34.8% of total revenue in 2022. Internet video revenue is expected to grow fastest with increased digitisation and internet penetration; however, it is expected to only account for 4.7% of the market. TV market revenue to grow at a CAGR of 6.1% from USD 191 million in 2017 to USD 385 million in 2022. Kenya hosts a varied radio industry with multiple radio stations with revenue entirely comprised of advertising revenue.

Market revenue is expected to grow at a CAGR of 7.0% from USD 85 million to USD 119 million in 2022. Due to

the high capital requirements and relatively stringent regulatory requirements, the industry is dominated by large, established formal companies. As the distributors of creative content rather than the producers thereof they can be viewed from the lens of a formal business rather than as a creative business which has unique financing needs.

Operational Challenges and Access to Finance

As mentioned above, players within this industry comprises established companies with enough capital to purchase the required infrastructure. As such, enterprises within this sub-sector may not face challenges to their creative sub-sector.

Industry Sizing

There are 237 enterprises within this sub-sector - all enterprise are registered.²⁸

Support Ecosystem

The Communications Authority of Kenya (CAK) provides regulation and policies for enterprises within this sub-sector. The body has provided policies aimed at

27. Entertainment and media outlook 2018 - 2022: An African Perspective. Available [here](#)
 28. Methodology is explained in the industry sizing section below

assisting the participation of local film producers within the broadcasting channels - in that respect, the CAK has made palpable efforts to provide a supportive enabling environment for creatives within the Kenyan creative sector.

Business Development Opportunities

The business development opportunities for this industry are therefore:

- Working capital

Other Visual



Overview and Value Chain

Visual artists typically work individually and are largely informal enterprises. Much like the photography industry, they primarily use online distribution channels for their products and services. More established artists may also have the reputation to have their works displayed at galleries, which are mainly supported by charitable trusts or as the philanthropic ventures of wealth collectors/investors. Most successful artists have some level of formal training.

Due to the high levels of informality within this sub-sector, as well as the relatively short value chains, this sub-sector provides low impact potential for the Kenyan creative economy. Even so, the business development opportunities for this industry are therefore:

- Formalisation of business and business management skills for artists
- Distribution channels

The table below presents a summary of the relevant financial needs of creative sub-sectors, and examples of providers within Kenya and the broader continent where applicable.

TABLE 04
Summary table of financial needs

Sub-sector	Business Development Need	Bank Lending/ Credit Guarantee	GrantsP	Project Finance Examples
Crafts	<ul style="list-style-type: none"> • Online knowledge platform • Business skills 	<ul style="list-style-type: none"> • Working capital • SME loans 	<ul style="list-style-type: none"> • Support creation of online platform • Business skills training NGO 	<ul style="list-style-type: none"> • HEVA fund offers growth capital to creative enterprise in Kenya working in fashion, film, music, crafts and performing arts²⁹
Design/ specialised design services	<ul style="list-style-type: none"> • Online knowledge platform (case studies, research material etc) • Infrastructures (research, production storage facilities) • Machineries 	<ul style="list-style-type: none"> • Working capital • Asset finance 	<ul style="list-style-type: none"> • Skills and capacity development • Training centers funded by the Government 	N/A
Designer fashion and high-end industries	<ul style="list-style-type: none"> • Infrastructure (Research centers, production, storage facilities) • Showrooms and concept stores eg ALARA and Temple Muse - Nigeria Lokko - Ghana Dozo - Ivory Coast 	<ul style="list-style-type: none"> • Working capital • Asset finance • Example: The Central Bank of Nigeria (CBN) offers the creative industry financing initiative (CIFI) for specific creative industries at 9% and with 10 year repayment 	<ul style="list-style-type: none"> • Support creation of online platform • LVMH rewards young fashion designers across the globe³⁰ • Woolmark prize rewards outstanding fashion designers on a global scale³¹ • Metallic fund issues financial grants and mentorship to support the creative black community³² 	<ul style="list-style-type: none"> • Fashionomics Africa is a platform created by the AfDB to support the growth of enterprises in the fashion industry in Africa³³ • HEVA fund offers growth capital to creative enterprises in Kenya working in fashion, film music, crafts and performing arts
Film/motion picture and video industries	<ul style="list-style-type: none"> • Film production and editing studios • Animation studios • Filming equipments • Film academies • Film festivals • Screening platforms 	<ul style="list-style-type: none"> • Working capital • Assets finance • Example : CBN's CIFI for specific creative business 	<ul style="list-style-type: none"> • One World Media Fellowship is a non-profit that seeks to fund creative and engaging non-fiction stories from low and middle income countries across the global south³⁴ • The Hubert Bals Fund offers different types of funding schemes to filmmakers across specified countries across the world³⁶ • The foundation AlterCine offers grants for filmmakers born and living in Africa, Asia and Latin America³⁷ • Movies That Matter offers start-up grants for new human rights film events³⁸ • The Miller/Packan Film Funds offers grants towards educative documentaries³⁹ 	<ul style="list-style-type: none"> • Afrinolly Creative Hub is a space opened for filmmakers, screenwriters, animators, artists where creatives learn, collaborate and create. Essentially the Hub unctons as «Where Technology Meets Art» for both emerging and established content creators³⁵ • HEVA fund offers growth capital to creative enterprises in Kenya working in fashion , film, music, crafts and performing arts

29. HEVA fund. Available [here](#)
 30. LVMH Prize. Available [here](#)
 31. International Woolmark Prize. Available [here](#)
 32. Metallic Fund. Available [here](#)

Sub-sector	Business Development Need	Bank Lending/ Credit Guarantee	GrantsP	Project Finance Examples
Music/sound recording industries	<ul style="list-style-type: none"> Recording studios Income support to musicians 	<ul style="list-style-type: none"> Assets finance Example: CBN's CIFI for specific creative industries 		<ul style="list-style-type: none"> Metallic fund issues financial grants and mentorship to support the creative black community HEVA fund
Performing arts(theatre, dance, opera comedy) writers and performers	<ul style="list-style-type: none"> Rehearsal rooms performance space Theaters and community spaces Libraries, bookstore 	<ul style="list-style-type: none"> Asset finance 	<ul style="list-style-type: none"> Production and event sponsorship 	<ul style="list-style-type: none"> HEVA fund
Photography	<ul style="list-style-type: none"> Photography studios Photography schools Photo equipments 	<ul style="list-style-type: none"> Micro asset finance 	<ul style="list-style-type: none"> The Prince Claus Fund for culture and development provides opportunities for connection and exchange and stimulated cultural expression⁴⁰ The contemporary African photography prize is an international prize for photographers whose work were created on the African continent or who engage with the African diaspora⁴¹ The Aperture Portfolio prize is an annual international competition to discover, exhibit and publish new talents in photography⁴² 	
Radio and television (broadcasting)	<ul style="list-style-type: none"> Broadcasting infrastructures (airwave masts, internet connection) 	<ul style="list-style-type: none"> Working capital Asset finance 		
Other visual arts (painting, sculpture)	<ul style="list-style-type: none"> Business skills Arts education Digital marketing skills 	<ul style="list-style-type: none"> Asset finance 		

33. Fashionomics Africa. Available [here](#)
 34. Fellowship, One World Media. Available [here](#)
 35. Afrinolly Creative Hub. Available [here](#)
 36. Hubert Bals Fund, IFFR. Available [here](#)
 37. Fondation AlterCine. Available [here](#)
 38. Movies that matter. Available [here](#)
 39. The Rogovy Foundation. Available [here](#)
 40. Prince Claus Fund for Culture and Development
 41. CAP Prize. Available [here](#)
 42. Aperture. Available [here](#)



Chapter 3

Market Sizing



Our research has highlighted that the creative sector is a diverse and unfortunately under-reported sector which makes precise market sizing difficult. Additionally, the high levels of informality likely imply that the sector may be well larger than estimated within this report.

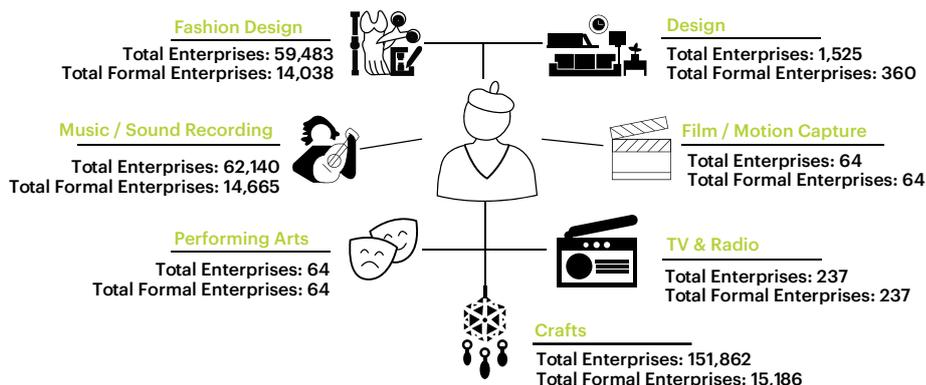
As a starting point, we will utilise the Micro, Small and Medium Enterprises (MSMEs) survey released by the Kenya National Bureau of Statistics (KNBS) in 2016 to find the estimated split between formal and informal enterprises within the creatives sector.⁴³ Thereafter, using existing publications and databases, we will estimate the total number of enterprises per creative sub-sector, where possible. It is worth noting that creatives participate in multiple sub-sectors e.g. a music artist may also be a performing artist, an actor may be involved in theatre as well as film, and so some of these sub-sectors may have some overlap.

According to the MSME survey, there are 13,900 licensed enterprises under “Arts, entertainment and recreation” with 45,000 unlicensed enterprises. Licensed creative MSMEs make up 23.6% of total creative enterprises. While this total estimation may be an apparent underestimation, we utilise the split to derive the total number of informal enterprises within each creative sub-sector. Consequently, the total number of creative enterprises in our estimation is 275,375, broken down below.

Notes: Due to the high levels of informality, the photography and visual sub-sectors have not been included. However, the expectation is that these sub-sectors have relatively fewer participants, and so may not considerably affect the total estimated number of enterprises.



There are an estimated 275,375 creative enterprises in Kenya: 44,614 are registered



43. Micro, Small & Medium Establishments Survey 2016, KNBS. Available [here](#)

Music/Sound Recording Industries

There were 13,967 artists registered with the MCSK in 2019;⁴⁴ assuming an average number of 20 artists per studio, this yields 698 studios. Applying the formal-informal split dictated by the KNBS MSME survey, we estimate 47,475 informal enterprises bring the total number of enterprises within this sub-sector to 62,140. It is worth noting that most artists are also live performers and so have been primarily allocated to this sub-sector.

Fashion Design

While there are no registries that track the number of registered fashion design enterprises, a study by HIVOS, in collaboration with Equity Bank and the Association of Fashion Designers of Kenya gave an estimate of players within the Fibre to fashion (F2F) value chain.⁴⁵ 22 large foreign-owned companies in the Export Processing Zone (EPZ), 170 medium and large enterprises and over 75,000 micro and small companies (including fashion designers and tailoring units) operated in F2F value chain.

It is worth noting that most of these businesses may not fall under fashion design, as their operations may fall more appropriately within the textile sub-industry. Assuming a conservative proportion of 20%, we obtain 14,038 registered enterprises under the fashion design industry. Implementing the formal - informal split, we obtain 59,483 enterprises in total within this sub-sector.

Design

Due to an acute shortage of information regarding this sub-sector, estimations may severely underestimate the total number of design enterprises. According to Kenya Business Directory⁴⁶, there are 360 companies registered in the design category. Assuming all these are registered; and using the formal-informal split, we estimate 1,165 informal enterprises. It is worth noting that, due to limited public data available, this estimation does not include freelance graphic/visual/interior designers.

Film/Motion Capture

As highlighted above, the capital requirements to participate effectively within this sub-segment are high. Additionally, most enterprises within this sector need to be registered to access most shooting sites, participate in national/international festivals/competitions and to hire/pay freelancers. There are 64 Film/Motion capture enterprises registered on KFTV⁴⁷, a site that tracks local production companies to provide production logistics and resources to international crews.

44. Kenyan artists to get KES 200 million monthly in royalties. The Standard. Available [here](#)
 50. The State of Kenyan Fashion Industry, The Designers Studio. Available [here](#)
 51. Kenya Business Directory, Business List. Available [here](#)
 52. KFTV website. Available [here](#)
 53. List of FM radio broadcasters, CAK. Available [here](#)
 54. Ease of doing business BERF Report - Film and Digital Content. Available [here](#)
 55. Kubeba Crafts, Kubeba Crafts website. Available [here](#)

TV and Radio

Due to heavy regulation by the local government, all radios and TV stations are required to be registered. According to the Communications Authority of Kenya (CAK), there are 167 licensed radio broadcasters.⁴⁸ There are 66 free to air TV stations and 5 pay TV stations.⁴⁹

Crafts

This sector comprises mostly informal enterprises. Kariokor market in the capital of Nairobi is home to around 7,000 workers with makeshift sheds and workshops.⁵⁰ Taking this as a proportion of the Nairobi population and then applying this to the entire Kenya population, we estimate that there are 151,862 enterprises in total across the country.

Performing Arts

As with the film industry, capital requirements within the performing arts sector are high. As such, the space is likely entirely made up of registered enterprises. We have assumed that the total number of performing arts enterprises is equal to that of film. Given the similarity in challenges faced across both sectors, and the limited number of venues for performing arts shows, there are likely few existing enterprises within this sub-sector. This estimation excludes individual performing artists (such as musicians already included in the music sub-sector estimation) and live performance companies.

Photography and Other Visual

As these enterprises mostly consist of freelance creatives, it is quite difficult to estimate the total number of players within these sub-sectors. Furthermore, there lacks existing registries or freelance websites that exhaustively detail players in these sub-sectors.



Chapter 4

Recommendations and Financial Solutions

4



It is clear from the research that is available (and our primary data research) that the sector provides much needed employment, already generates export earnings and could generate considerably more export earnings and provide a higher quality of living to many of the participants through appropriate market development interventions, only some of which are financial in nature.

Thus, before turning to the issue of financial products and solutions, it is appropriate to first address the issue of market development and the institutional constraints that impede the growth of the market, although these are not the main focus of the report.

Market Development Interventions

Demand Side Interventions

Formalisation and Business Registration

As one of the initial steps to improve financial inclusion among creative enterprises, creatives need to register their enterprises as businesses. Registration provides creatives with opportunities to participate in national and international initiatives that required registered businesses, as well as complying with bank requirements when trying to access loans. Aside from formalisation, there is also a need for a registry for creative enterprises. This is essential for the government,

relevant associations and financial institutions to get a reliable depiction of the total opportunity within the creative economy.

The registry should track key metrics regarding creative enterprises such as sub-sector, qualifications, location and performances - this provides relevant information for relevant stakeholders to better understand the creative landscape. Moreover, this registry allows the government, NGOs and international bodies to roll out targeted initiatives for specific creative sub-sectors while allowing them to forecast the expected impact of the same.

Business Skills and Technical Skills Training

A critical inadequacy in creative enterprises is the lack of business skills among creatives. In order to improve livelihoods and access to finance, it is necessary for creative entrepreneurs to receive business training to improve their record-keeping skills, business and capital planning. Record keeping will largely be useful for financial institutions to map out creative business while capital planning skills will ensure creative entrepreneurs are able to maintain a robust working capital cycle. Moreover, there is a need to formally train creatives within their craft. Generally, creatives within the Kenyan space have largely been trained informally, relying on experienced creatives to help them develop their skills. Although this has the benefit of building practical skills in the creatives, the disadvantage is that creatives lose out on the deeper

technical knowledge that may vastly improve the quality of their crafts. Alternatively, some skills they may learn informally may be crude variations of the craft, leading to relatively substandard work.

The creative industries in many countries are able to grow and prosper on the basis of numerous educational facilities that provide high quality training for those entering into the creative industries, many of which receive subsidies from the government. Student loans and grants are also often provided. This provides the fuel for the industry and many of the potential creatives in the industry would benefit from greater public support for institutions and courses across different sub-sectors from fashion to design, fine art and music. Although social media thrives on the story of self-starters, in reality most big names in the creative industry have formal qualifications.

Operating Environment

Copyright and Royalty Management

One of the creative industries that has the most earnings potential is the music industry, but this is also an industry which has the most complex royalty management systems and one in which a failure to adequately manage royalties puts the industry in disrepute and directly limits the opportunities for artists. Improving the functioning of royalty collection institutions is key to the success of the industry. This can be done by implementing a stricter framework for broadcasting companies and benchmarking royalty payment mechanisms against feasible international best practice.

The same framework needs to be applied to the value chain of ring back tones (RBTs). As mentioned, RBTs are expected to make up the bulk of revenue for the music industry. Consequently, it is crucial that the royalty management framework ensures that artists are compensated adequately for their work. Additionally, in the past there has been some degree of mismanagement in royalty collection institutions - there is a need for these institutions to provide more transparency into their activities to ensure that proper procedures are followed.

Intellectual Property Regulations

While there has been progress in improving the intellectual property policy framework in Kenya, piracy is still a severe issue affecting the creative industry, particularly music and film. Stream ripping sites play a key role in copyright infringement. Currently, internet providers in Kenya have not placed any mechanisms to block any sites in Kenya.

The government needs to work with internet providers to actively block any sites that seek to illegally access creative content through law and ensure internet providers regularly comply with these laws.

Digital Access

In many of the creative industries, appropriate access to digital services for online sales, streaming of content and digital payments are at the heart of the business. Stakeholder interviews with artists have indicated a shift of artists to the use of online digital platforms to market, distribute and sell their products. The use of industry-specific platforms (such as Spotify for music artists) presents unique opportunities to improve the earnings of artists.

Case study

Royalty Exchange

In established markets, music artists almost always release their music on multiple renowned streaming platforms such as Spotify, Apple Music and Deezer to maximise income earned from royalties. This has provided opportunities for unique arrangements to increase revenue collected for artists.

Royalty Exchange is an online platform that allows music artists to auction royalties to their music in an open market bidding system. The artist offers the royalties to a piece at a starting price they determine, then through the bidding system, a final bid is determined and accepted.

Whereas most Kenyans are able to access and probably have better internet access than in other African countries, the cost of access relative to income levels is a constraint to streaming and online content consumption; the use of local digital payment solutions (such as MPESA) also constraints earnings if the platforms have not localised their collection capabilities. However, international streaming platforms are increasingly localising their operations, with Spotify offering MPESA as a means of payment for their services. With Kenya's increasing internet access, an increasingly digital-savvy population, a relatively developed payments market and improved intellectual property laws, digital channels present meaningful opportunities for creatives.

Case study

Sound Royalties

Sound Royalties is a company offering non-collateralised financing to artists almost solely on the expected income from the royalties of their streams.

How it works

- Artists apply for the loan facility, submitting their royalty streams on the platform
- The company then evaluates the streams and offers three personalised funding options with projected earnings for the next year, as well as identifying other streams the artist may not be collecting on
- Once the artist identifies which funding structure best suits them, they sign the necessary framework and the funds are disbursed to the artist

Enabling Environment

In most creative sub-sectors, there seems to be limited support from the government as well as a limiting policy framework; creatives have cited taxes and heavy fees that discourage their creative endeavours. The government needs to prioritise policies and initiatives that will improve the operating environment for creatives - any initiative that eliminates an impediment to developing creative output; an example would be regulating the supply chain to ensure that suppliers do not overcharge creatives or reducing fees on shooting films. Moreover, government directives that support creatives such as the local content quota by the Communications Authority of Kenya need to be enforced vigorously in order to indicate support for the creatives sector.

Additionally, there is a need to improve access to relevant tools for creatives. This can be done through reducing the taxes on the importation of certain types of equipment, or reducing the fees for operating equipment/hiring locations. Moreover, developing platforms for shared creative resources may also benefit creatives.

Government Funding

The government also needs to increase the budget to the creative arms of the government such as the Ministry of Sports, Culture and Heritage (MOSCA). Under the current constitution, management of culture has been devolved to counties, with MOSCA having a mandate over national initiatives. Currently, the culture department receives approximately 5% of the Sports, Art and Social Fund. Currently, the 2020/21 budget provides KES 15 billion to this fund, translating to approximately

KES 750 for the culture department (translating to 0.01% of Kenya's 2019 GDP). The government needs to increase funding to better support creative initiatives.⁵¹

Supply Side Interventions

Formalisation and Data Collection

The government needs to incentivize creatives to register their businesses. This can be done by waiving registration fees or using registration as a requirement for participation in government initiatives.

This will result in increased formalisation among creatives, allowing them to participate in government programmes and improving their bankability. Additionally, the Kenya National Bureau of Statistics (or an equivalent institution) needs to start collecting data on creative enterprises. This can be done through the registry of creative enterprises or an equivalent data collection exercise. The result is a repository of data that may be used by the government to develop the necessary interventions for the creative sector, as well as relevant data for credit providers for their credit lending processes.

Focus Box:

Effect of COVID-19 on creative enterprises

The pandemic had a profound negative impact on the Kenyan economy, disproportionately affecting sectors such as the hospitality and services sector as well as the creatives sector. A report on options and strategies for creative enterprises indicated that 88% of 510 creative survey respondents reported a decrease in income as a result of the pandemic.⁵²

It is worth noting that 50% of respondents reported a decrease in income by over 80% - illustrating the severe impact of the pandemic on creative enterprises. There needs to be short-term, agile responses to support the creative economy in this regard:

- Prioritising vaccination of entertainment providers
- Fast tracking the development of COVID-19 vaccine passports
- Creating COVID-19 safe zones (such as hotels) that double as event areas and social meeting areas that can be accessed by holders of vaccination passports
- Actively recommend creatives to join SACCOs where they can access finance in the short term as the government rolls out other relevant initiatives

51. 2020 Budget - Sports, Art and Culture. Available [here](#)

52. COVID-19 Resilience: Creative Industry Options and Strategies, HEVA.

Associations

Associations can be useful tools for policy advocacy to petition for better operating standards within a given sector. Generally, creative enterprises have cited inactive as well as ineffective associations within their respective sub-sectors, making it difficult for them to have a voice in reforms aimed at their sub-sector.

The government needs to actively engage with creative associations to develop relevant creative initiatives. This will directly involve creatives in the creative-making process and ensure the most pressing matters are addressed first.

Not only will this empower associations (and so improve how they operate as creatives seek to build optimal association structures that adequately represent their needs), but also provide a means for the government to train creatives and improve formalisation.

Financial Solutions

Our analysis has shown that the financial needs of different sub-sectors of the creative industries are remarkably different. Whereas there are a large number of individual creators and companies in the creative industries that fit the category of small business and would therefore benefit from standard training on business management and business skills, many of these businesses are unlikely to ever have either the cashflow or the collateral to avail of bank credit products.

While there are numerous credit providers within the market, the focus of this section will be banks, as they are the main sources of credit in the economy. Banks in most countries provide relatively limited amounts of direct lending to the creative industries but are nonetheless major supporters of the arts through sponsorships and grants of one kind or another.

In this section we propose a set of financial products and solutions with highlighted case studies from countries within Africa that have tried to implement these initiatives in a viable manner.

Targeted Bank Products

Banks may want to develop specific bank products aimed at improving financial inclusion among creatives. This may take the form of variations of standard bank products priced to incentivize creatives and so improve the bankability of creatives.

Additionally, banks may consider using the movable collateral registry when lending to creative enterprises, as most have assets in the form of pieces of equipment. Moreover, the banks can use signed contracts that creatives have as an alternative means of collateral.

Case Study

Anakazi Proposition, Stanbic Zambia

The Anakazi product is banking proposition tailored specifically for women-led enterprises in Zambia.⁵³ Informal enterprises are signed up with the bank's Tamanga account which is priced cheaper than other bank products. Enterprises are then encouraged to deposit daily profits to generate a transaction history.

After a period of about six months the bank has a better understanding of the entrepreneur and their business and can then lend appropriately without collateral. This product may be particularly useful for creatives in the craft industries.

Most creatives may not be formalised, and so this may be a suitable way to get them included within the financial system. Additionally, as most will not readily have collateral, this alternative form of lending may appeal to creatives enterprises.

Case Study

Creative Loan, Access Bank Nigeria

The creative sector loan is a banking product aimed at capacity building and employment creation for creative enterprises.⁵⁴ The bank offers single digit funding for creative enterprises with flexible repayment plans - which may be particularly useful as creative's income is largely seasonal.

However, there are numerous requirements for application, with over 15 documents needed for application alone. Nevertheless, the product is tailored to meet the needs of creative entrepreneurs, which will inevitably improve financial inclusion of creatives. This product was developed in response to the creative industries partial credit guarantee scheme from the Central Bank of Nigeria.

53. Stanbic Bank Zambia website. Available [here](#)

54. Access Bank Nigeria website. Available [here](#)

Focus Box:

CFC Stanbic Skiza product

In 2018, Stanbic Bank announced a partnership with Cellulant to avail loan facilities to music artists secured by their Skiza ringtone royalties. After the musician has received a loan under this arrangement, Cellulant deducts repayments for the loan from royalties received from Safaricom on behalf of the artists and pays this amount to Stanbic Bank.

Stanbic offers the following products under the arrangement:

- Unsecured personal loans
- Vehicle loans
- Home loans, *shamba loans* (vacant land purchase) and construction loans

Requirements for the Skiza product:

- Must be registered as a Cellulant Skiza artist
- Earn more than KES25,000 per month in royalties
- Have a clean Credit Reference Bureau record
- Six months record of Skiza payments

Pre-COVID the product performed well, displaying significant growth with artists earning enough in royalties to service meaningful loans. The uptake of the product has significantly slowed due to the global pandemic, which ended live performances where musicians promoted their ringtone to their audience.

The main challenge faced when rolling out the product has been hesitancy among new applicants, with most artists never having taken up a financial product before. Furthermore, artists generally found it difficult to understand how the product works. However, endorsement from Cellulant was able to mitigate this, with artists taking up the product progressively.

While the uptake has been affected significantly by the pandemic, the bank's product has demonstrated an effort to support the creative sector through an innovative product that addresses particular pain points of creatives while being well-positioned to suit the dynamics of creative enterprise operations.

Bank Marketing Initiatives

It may be worthwhile for banks to include initiatives aimed at creatives as part of their marketing activities. While these are carried out mostly under sponsorship models, they are part of the bank's marketing strategy to maintain a brand identity that appeals to its target customers.

While this channel does not provide credit to the creative industry, it does provide a channel of 'finance' through which the bank does not have to consider the impact of expenditure on its capital stance. Additionally, the bank's support to the creative sector will likely encourage creatives to formally bank with the financial institution, which may ultimately lead to increased credit to this sector. The following examples and case studies suggest the role that the banks can play in the sector as sponsors and as part of their marketing efforts.

Case Study

Standard Bank(Stanbic),South Africa

Standard Bank South Africa sponsors numerous artistic ventures, such as the Standard Bank Jazz Festival, the National Arts Festival, the Standard Bank Young Artist Award as well as hosting the bank's personal art gallery.⁵⁵

The National Arts Festival is the largest in Africa and second largest in the world. Considering the fact that 34.7% of South Africa's population is between the ages of 15 and 34, and the median age is 27,56 then banks may want to strategically market themselves to themes that align with the youth.

Other banks in South Africa have taken up similar approaches; Absa bank sponsors the largest visual arts prize in South Africa, hosting the Absa L'Atelier art competition. The bank has one of the largest corporate art collections in Africa.⁵⁷ FNB runs the FNB Art Joburg event which supports and promotes local and international contemporary art.⁵⁸

Kenya also has a generally young population, and so a similar marketing strategy could effectively drive growth within the creative sector.

Case study

Equity Bank, Kenya

The bank launched the Design your Destiny project under the bank's Vijana na Equity campaign in 2014 that was aimed at supporting fashion designers in commercialising their ventures.⁵⁹ The project offered a financial literacy workshop for 40 promising fashion designers with cash prizes being offered to the overall five winners of the project's design competition.

Additionally, participants of the initiative lacked conventional collateral; the bank attempted to work around this by implementing a group lending model.

Partnerships with Development Partners

Banks may also leverage partnerships with development partners to avail funding and technical assistance to creative enterprises. Multiple Kenyan banks have existing partnerships with international development partners such as the African Development Bank (AfDB), the International Finance Corporation (IFC) among others.

Case study

Equity Bank, Kenya

By March 2021, Equity bank signed loan deals worth KES 62.8 billion over the previous six months in partnerships expected to support lending to small businesses. The bank signed loan deals with multiple development institutions such as the AfDB, IFC, Proparco, German Investment Corporation, Entrepreneurial Development Bank and CDC-UK.

While the extent to which these funds have gone to creatives is unclear (and likely modest as per the latest investor presentation), these funds can be used to lend to creative enterprises.



The National Credit Guarantee Scheme

In response to the COVID-19 pandemic on the SME sector, the National Treasury with the Central Bank of Kenya and other stakeholders launched a KES 3 billion Credit Guarantee Scheme to promote enterprise growth among SMEs offering affordable credit to beneficiaries.⁶⁰ This entailed a partial guarantee scheme aimed at the SME sector. The Treasury mandated banks to "evaluate applications for credit facilities by using prudent banking criteria" and "conduct the account of borrowers with normal banking prudence."

The implication is that banks may lend to their typical customers without trying to reach slightly riskier borrowers. Given that creative sector loans make up modest amounts of bank loan portfolios, it may be necessary for the treasury to entail specific provisions for the credit guarantee scheme to reach creatives. The AfDB has expressed interest in providing a national credit guarantee scheme tailored to meeting the needs of creatives. This may be a particularly useful tool in improving access to credit among creatives.

Case study

Creative Industry Financing Initiative, Central Bank of Nigeria

In 2019, the Central Bank of Nigeria (CBN) in collaboration with the Bankers' Committee introduced the Creative Industry Financing Initiative (CIFI) with the purpose of improving access to long-term low-cost financing by entrepreneurs and investors in the Nigerian creative and information technology (IT) sectors. The sub-sectors eligible under the initiative are fashion, IT, film/motion picture and music.

The facility offers different types of loan products for each segment; the student software development facility has a loan limit of NGN 3 million whereas the movie distribution facility offers up to NGN 500 million. Each facility has unique requirements tailored to the value chains of the respective sub-sectors the product targets.

55. Stanbic Bank website. Available [here](#)

56. Mid-year population estimates 2020, Statistics South Africa. Available [here](#)

57. Absa website. Available [here](#)

58. FNB Art Joburg, artfairmag. Available [here](#)

59. Young fashion designers get a lift from Equity Bank, Business Today. Available [here](#)

60. PFM Credit Guarantee Schemes Regulations 2020, Treasury. Available [here](#)





Chapter 5

Conclusion



Kenya has a proud cultural heritage, but it needs support.



This study has shown that whereas the creative industries can be an engine of growth and contribute significantly to the economy and to exports in an increasingly digital world, the nature of the creative industries is such that they are particularly difficult to finance - with many creatives operating informally with lumpy and uncertain cash flows.

It is for this reason that most developed country Governments devote considerable attention to supporting the creative industries - both to project their national identity and to expand employment and exports, and provide much of the funding that in other industries is provided by the private sector. In less developed countries, it is particularly difficult for governments to play this role given the range of competing demands on fiscal resources and the perception that many creatives come from middle income backgrounds and create products that are valued by the wealthy. This is short-sighted given the employment creation and export earnings potential in many of the creative sub-industries.

We therefore propose a four-pronged approach:

Firstly, the Government should explicitly include creative industries in the partial credit guarantee scheme and work with banks to promote the fact that they are open for business and keen to support creatives in industries such as craft, design and fashion which are most

easily understood and supported with normal small business development tools. We recommend that the KBA work with Government and interested development partners (such as the AfDB) to create vertical programs for each of these sub-sectors which include business development support, formalisation support, platform access and borrowing under the PCG. Additionally, the eligibility criteria for the guarantee scheme needs to be reviewed to assess the limitations of the current framework while maintaining a suitable framework for the stability of the banking sector.

Secondly for the sectors that can create the highest level of export earnings and are most in need of significant amounts of funding - namely the music and film industry, the Government work with stakeholders to develop an industry development blueprint, which will include grants for early stage musicians administered by music distribution companies, tax breaks for film projects, and other concessions that makes Kenya an attractive location for film production internationally. This extends to intellectual property laws and interventions in royalty management institutions.

Moreover, we urge the leading banks in the country to follow the example of banks in other countries in creating banking products specifically suited to creative enterprises, as well as making sponsorship for the creative industries an important part of their marketing and social responsibility activities.

Finally, there needs to be several demand-side interventions to improve formalisation, visibility and technical competence in the creatives sector. It is essential to provide technical assistance to creatives to help them formalise their business, improve the entrepreneurial competence and technical competence in their respective fields. As creative entrepreneurs become more business savvy, their businesses will become increasingly bankable as well as improve bank

understanding of their potential. This will increase their access to finance as banks are able to assess their creditworthiness with some level of certainty. Such initiatives can be done by formal entities such as development institutions to bridge the formality gap. Moreover, as creatives become more technically adept at their crafts, they are able to produce higher-quality outputs and so can generate more revenue from their crafts.



Chapter 6

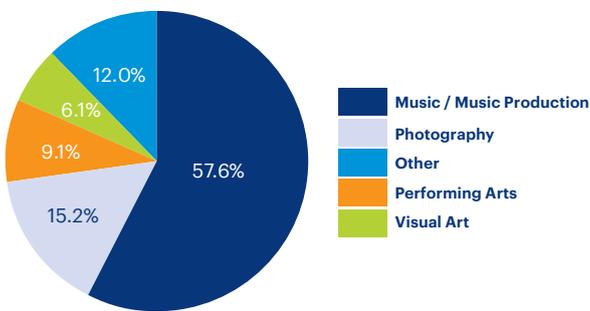
Appendix



Key Survey Results

Figure 2: Sub-sector participation

Primary sub - sector



Secondary Sub - Sector

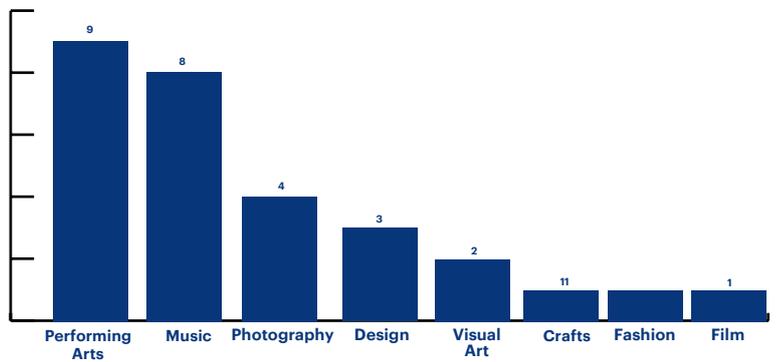


Figure 3: Distribution channels utilised

Distribution Channel

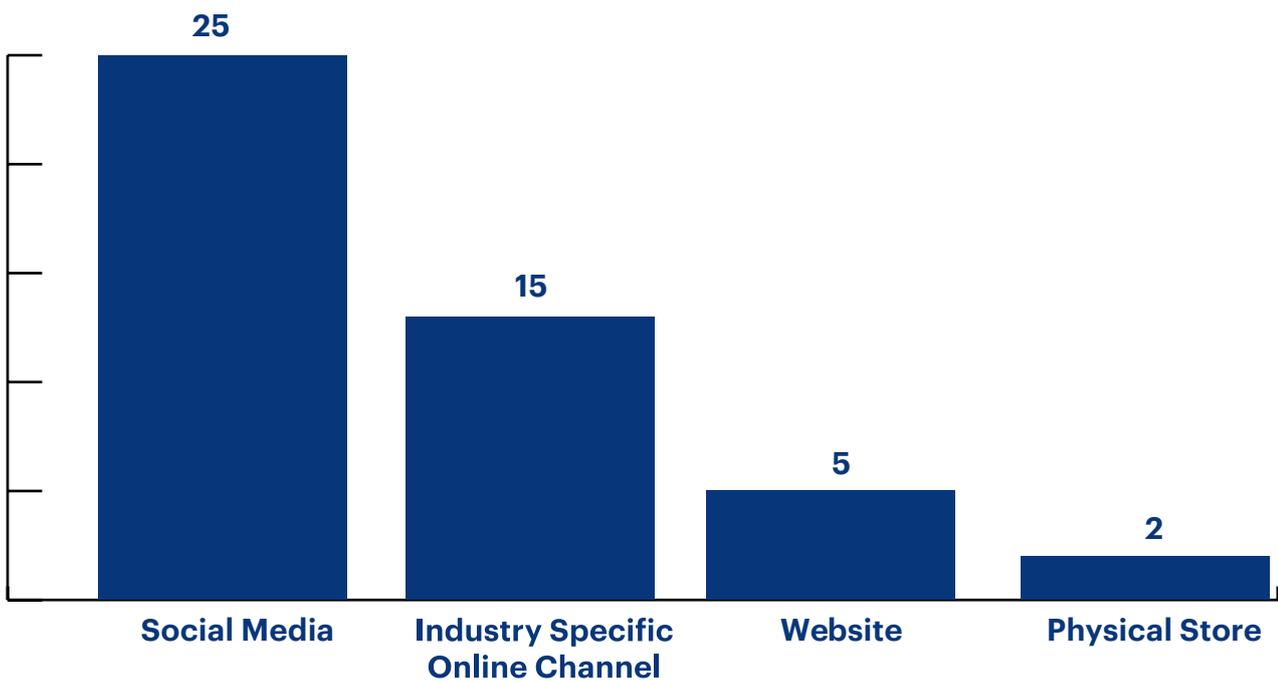
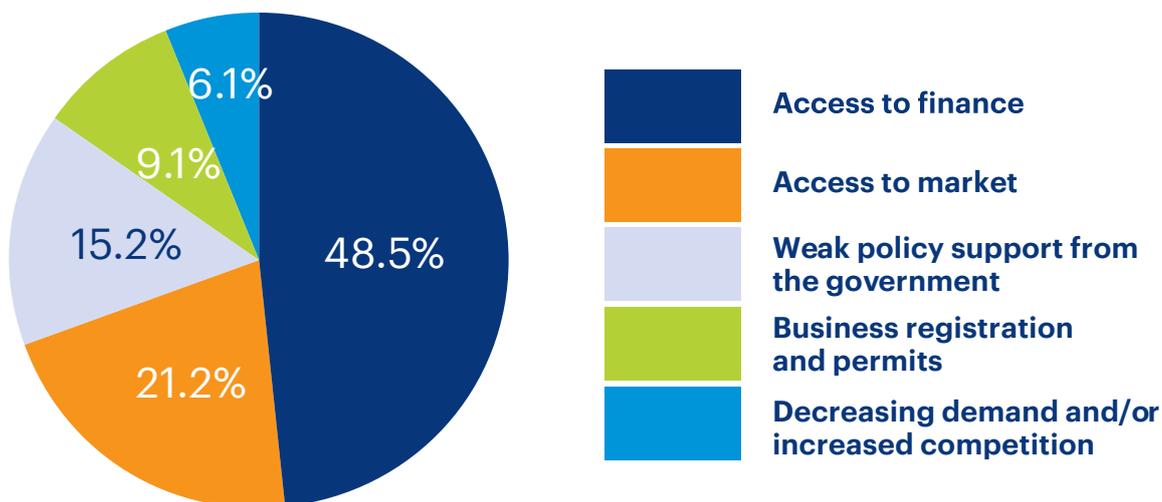






Figure 4: Obstacles faced by creative enterprises

Biggest obstacle faced by enterprises



Other obstacles faced by enterprises

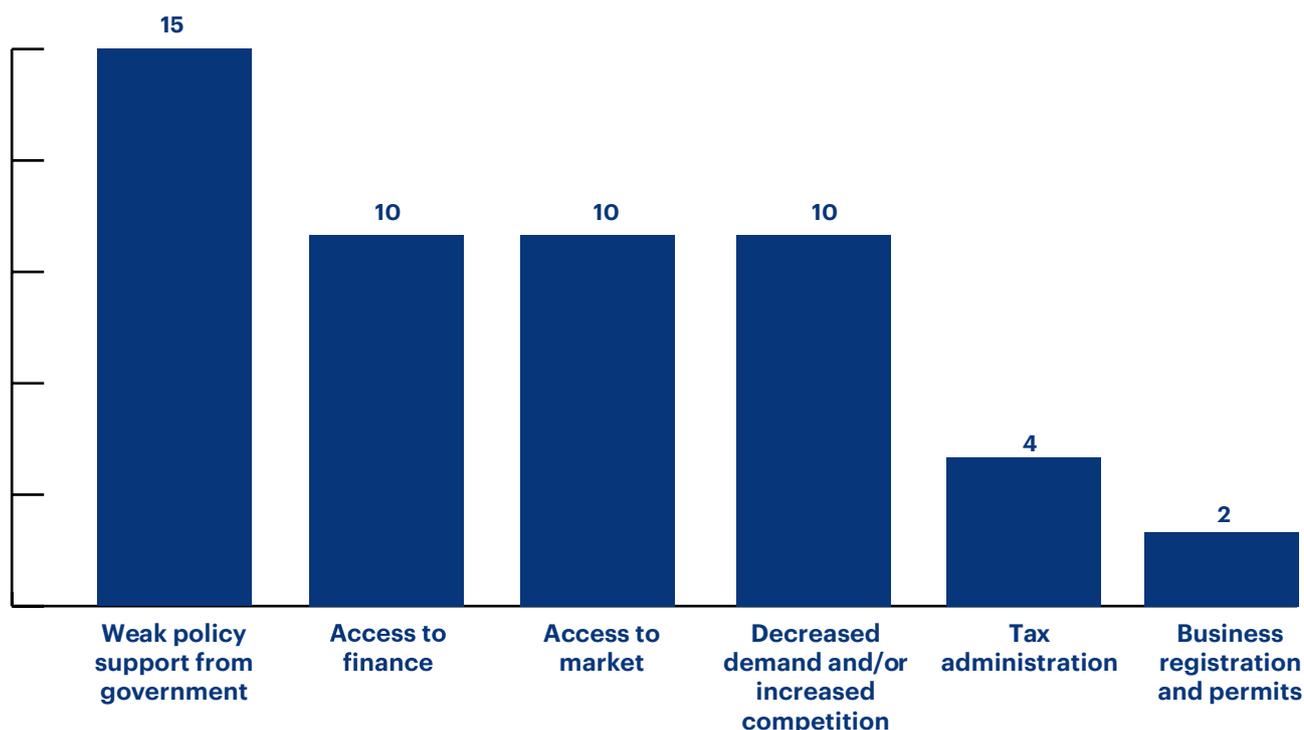
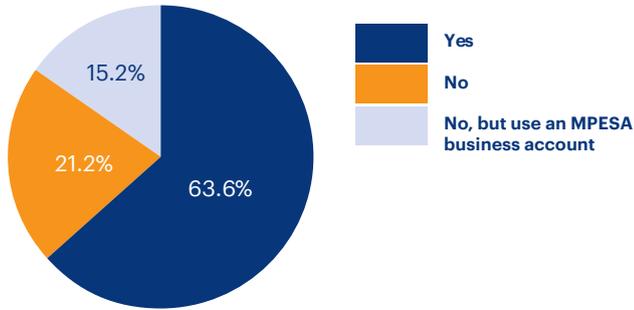




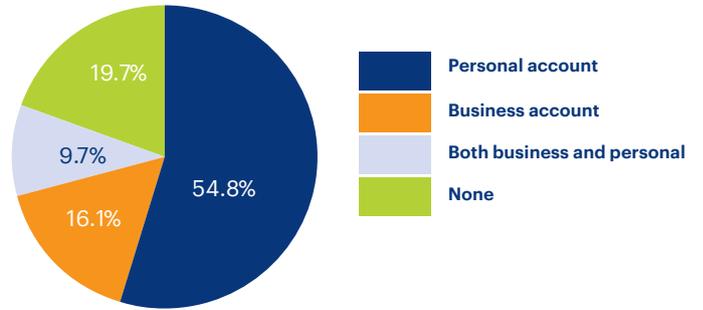


Figure 5: Financial characteristics and needs of creative enterprises

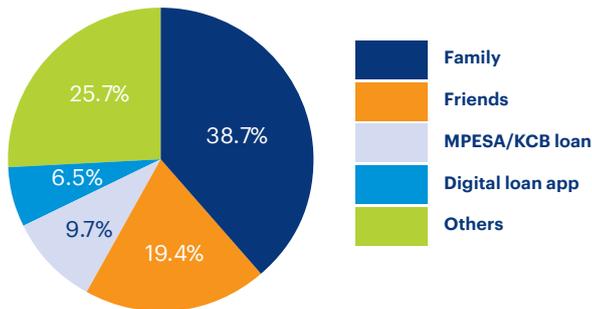
Existence of any type of bank account for business



Type of bank account used for business



Source of funding



Amount of funding required

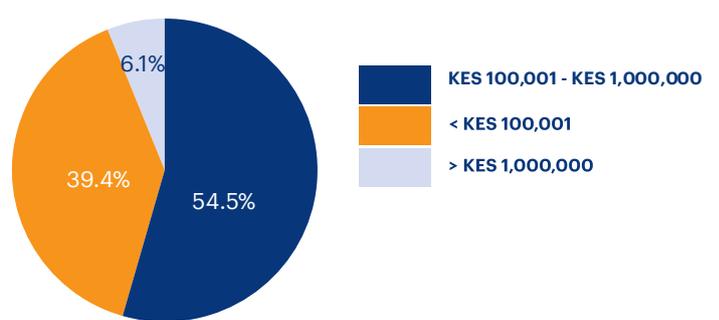
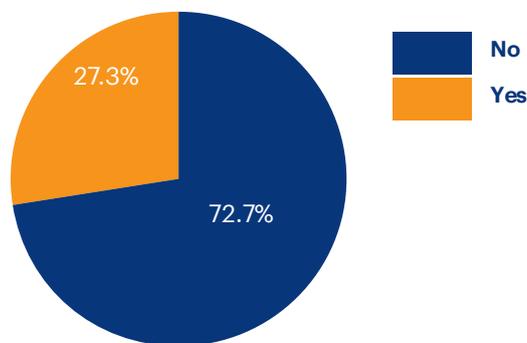
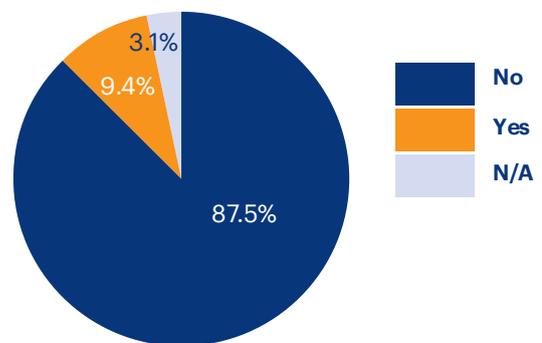


Figure 6: Support ecosystem

Awareness of any government initiatives to support creative sub-sector



Beneficiary of any government programmes funding or initiatives





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