OLIVER WYMAN

FUNDING FOR CULTURE

Attracting Private Sector Contributions

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ATTRACTING PRIVATE FUNDING INTO THE CULTURE SECTOR

There is a collective understanding across both mature and emerging economies that culture can play a significant and meaningful role in the diversification and growth of economies. The culture sector's general reliance on public funding makes it susceptible to cuts, especially during periods of national economic volatility. The evolving public health crisis caused by the spread of Covid-19 highlights, now more than ever, the critical need for policymakers to engage and mobilize non-government players to fill the emerging gap and ensure culture's longevity and continued development. In this paper we briefly outline the benefits of a thriving culture sector, the funding models adopted by countries, and a set of recommendations for increasing non-government contribution.

Culture has become a major asset for some of the world's biggest economies. It is a source of economic diversification with a meaningful direct impact on GDP and jobs: In the United States, for example, the culture sector accounted for 4.2% of GDP and 4.9 MN jobs. Culture can also have a positive indirect impact on a wide range of related sectors, such as tourism, fashion, and music. Moreover, it can play a large role in diplomacy and international exchange, enhancing bilateral relationships with countries of geostrategic importance and improving international perceptions.

Many of the world's emerging and newly-industrialized economies have learned these lessons and embarked on ambitious culture infrastructure programs. However, a reliance on government funding can bring fragility to the sector. Competition for public finance means that culture funding could fall out of favor if it becomes necessary to draft austerity-driven national budgets. The current evolving public health crisis has renewed fears of significant funding cuts to come, similar to the experiences of the last global credit crisis where government-dependent sectors were hit hard, leading to closures or reduced services at low-income yet high-use facilities including libraries and museums.

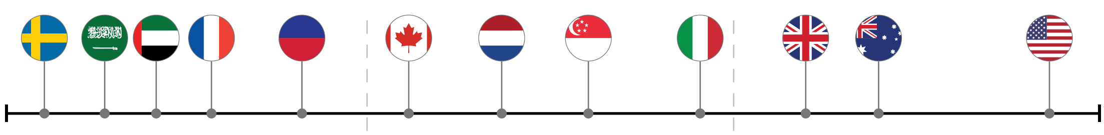
It is therefore critical for policymakers to consider ways to engage and mobilize the non-government sector and enable new income streams to emerge. These can come through partnerships, innovative delivery models, or schemes to boost non-government funding. Individuals, corporations and foundations, as seen in numerous economies, can form the backbone of a new wave of culture funding and bridge gaps that may emerge from a withdrawal of public-sector financing.

No single model will work for all countries. Rather, there are a range of models with different degrees of public funding and non-government contribution. They can be encouraged through a variety of regulatory and financial measures that make it easier to donate funds and set up foundations and organizations. The optimal approach for a country will depend on the maturity of its culture sector, its economic structure, and what it wants to achieve by encouraging cultural activities.

The three basic models are as follows:

1. A high degree of public funding is typical of countries where the culture sector is relatively underdeveloped, so it lacks a supporting ecosystem. However, this model also applies to countries such as France for which tourism is a great source of earnings, as tourists come partly in order to enjoy the country's cultural heritage and array of artistic offerings.
2. An incentives-based model is one where indirect public funding plays a major role: The government provides incentives – many of them related to tax breaks – for corporations, individuals, and other organizations to fund the arts. Such a system also typically includes various grants and support tools for capacity building – to help benefactors to optimize their operations and reduce costs, increase efficiency, and find income streams in addition to government funds. A condition for an incentives-based model to work is a relatively high level of maturity in cultural development, with significant public interest and awareness.
3. In the balanced model, the private sector provides a substantial portion of a country's arts and cultural funding; the other two legs of the model are public funding and government incentives. In many ways this is the most desirable model, as it is relatively self-sustaining compared to the two models mentioned above. However, it requires a high degree of maturity in culture development and a comprehensive supporting ecosystem. This development is most likely when culture is concentrated in accessible areas where continuous new content is possible, such as the film and music sectors.

Exhibit 1. Public vs. private funding models



PUBLIC FUNDING MODEL

Government is the only source of funding

Culture concentrated in areas with high preservation costs requiring public funding[1]

Low maturity in culture development

Lack of supporting ecosystem

INCENTIVES BASED MODEL

Prevails indirect public funding, driven by gov. incentives

Vast number of incentives (mostly tax based) to promote private funding

Higher maturity in culture development, there is public awareness and interest

Grants / support tools for capacity building

BALANCED MODEL

Balanced model, where private sector funds 15% or more

High maturity in culture development

Culture concentrated in accessible areas with development of new content (Movie or music industries)

Comprehensive supporting ecosystem, sector is self sustainable

[1] In France, there is a lot of cost in preservation of cultural heritage (Cathedrals, museums, public infrastructures), mostly supported by the Government

Source: OW analysis

FIVE LEVERS FOR CULTURE FUNDING

Countries – such as the US, the UK, Canada, and Singapore, all of whom have different economic structures and approaches to culture funding – that have attracted a large amount of non-government contribution to culture, have employed varied mechanisms and levers to engage individuals, corporations, and foundations. Based on our global experience of working with culture ministries and authorities, we have summarized the five key levers available to governments to attract non-government contributions:

Regulation. Regulation is an important tool for creating a more liberal, donor-oriented ecosystem for contributions to culture. Examples of possible changes include amendments to ease the barriers to philanthropic giving, policies to empower the voluntary (or third) sector, and simplifying the procedures for registering and operating voluntary organizations.

Regulation can target a particular aspect of culture that a country wants to preserve or promote. In France, for example, radio stations must abide by a local-content quota, ensuring that French musicians get adequate airplay – and, therefore, promotion for their products. Spain regulates landscaping and architecture to promote its cultural heritage.

Regulation also applies to smart means to raise funding. Less-visible sectors in culture and the arts – languages, folk music, and poetry, for example – are not so attractive for private-sector funding. So they often rely on foundations and trusts, which dynamize private sector funding by financing such less-visible activities. To enable these organizations to flourish, governments need to revise or introduce regulations, so as to make it simpler to set up and operate foundations.

Italy has more than 90 banking foundations that fund cultural activities. In the US, trusts and foundations contribute nearly half a billion dollars to culture and the arts. One innovative example is Tides Canada, an online charity that steers donations into solutions that address Canada's social and environmental challenges: Donors can contribute to selected projects and initiatives through an online platform.

Recognition. Many patrons of the arts are driven by passion, but they are also motivated by recognition for their efforts. The US has an annual awards gala for the biggest contributors to the cultural sector, and it also recognizes them in publications. Some big donors also get naming rights on cultural buildings – museums and the like. At a smaller scale, donors in numerous countries are given membership of well-known culture venues, which provides year-round access. Recognition can become a powerful tool in recognizing historic contributions. It galvanizes an individual's or corporation's passion for a particular aspect of culture, whilst also attracting new contributions that promote the culture sector as a whole.

Infrastructure. Providing venues is costly for culture practitioners. It can be made cheaper by taking advantage of underutilized publicly-owned buildings or making private buildings available. Various incentivizes can be provided to private asset-owners, including – but not limited to – tax breaks, government subsidies, public recognition, and the prospect of future partnerships.

For example, a large conglomerate might want to open up its facilities assets for cultural in order to get recognition. Another illustration is Canada's offer to landlords of a 50-percent tax reduction to provide artistic and cultural activities. In the US, the Museum of Modern Art in New York uses land and a building provided by the government.

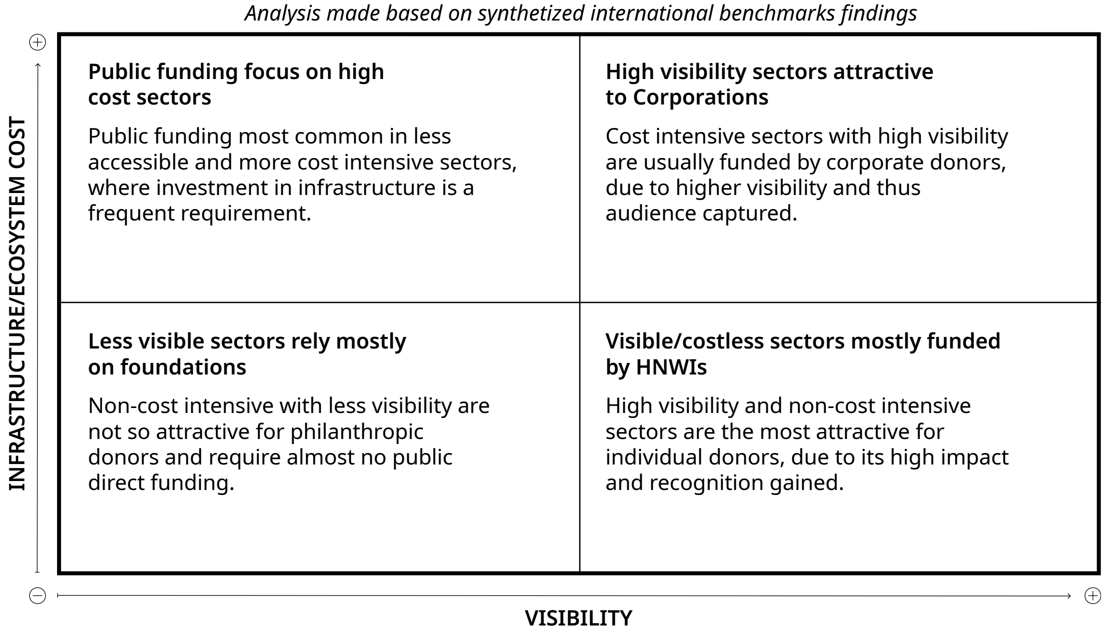
Capacity building. This can consist of a wide range of measures, including the establishment of specialized agencies to encourage engagement between corporations and cultural organizations and raising public awareness of cultural investments. It can take the form of workshops and training in fundraising techniques.

The UK National Lottery Heritage Fund distributes a share of its funding to support a wide range of heritage projects. UK Lottery funds also go to Catalyst Small Grants, which provide small sums of money to workshops, mentoring programs, and other formats in order boost cultural organizations' management capabilities and fundraising skills. The beneficiaries improved their understanding of fundraising – both basics and sector-specific aspects. They also improved their fundraising strategies and enhanced their internal processes. Their organizations became more resilient, and for every $1 awarded in grants, the beneficiaries raised an average of $3 in private money.

These approaches help bridge the gaps between culture practitioners, potential investors, the government, and audiences: Governments and potential donors often find it difficult to get in touch with audiences and artists; and the artists community might not understand how to attract investment or invest themselves.

Exhibit 2. Sectoral funding impact matrix

Analysis made based on synthetized international benchmarks findings



Source: OW Analysis

Financial incentives. Tax relief is a highly effective way to encourage individuals and corporations to finance the culture sector. One way to use tax relief is to encourage donations, which can have a significant impact in places with a large number of high-net-worth individuals. Because of this, individual donations are the most significant form of private arts funding in New York: Such donations amounted to nearly $1 billion in the most recent year for which statistics were available.

Another possible financial incentive is matching grants. The Singapore government offers 1:1 matching for donations from companies, organizations, and individuals to arts and heritage groups. Studies found these grants increased the willingness to donate by 20 percent. In the UK, companies and pension funds provide individuals with the option to donate from their payroll before tax deductions.

On the demand side, Italy offers VAT exemptions or reductions on cultural goods and services, such as films, books, and music, as well as on visits to theaters and museums. France has a similar system. Another financial mechanism is direct taxes to fund the arts, such as a temporary tax on billboards that went towards Toronto’s arts and culture reserve fund.

THE WAY FORWARD

The importance of a dynamic and vibrant culture sector has come to be recognized globally, in both mature and developing economies. It is important for governments, ministries, and cultural authorities to build the foundations of long-term sustainability by engaging the non-government stakeholders, in particular individuals, corporations, and the third sector. To do this, policymakers should proactively enable and incentivise contributions from these key groups, using levers tailored to their country’s economic structure and their goals for the culture sector.

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