5 Public and private funding for cultural and creative sectors

Investing in cultural and creative sectors (CCS) is important due to the direct and indirect benefits they generate for the economy and society. Public expenditure on culture has promoted culture as a “merit good”, similarly to education and healthcare. However, with a growing understanding of the role that culture and creativity can play in economic development, a more diversified approach to funding cultural and creative sectors has emerged, with a greater emphasis placed on economic returns to government expenditure and a more prominent role for private investors. Consequently, a more complex ecosystem of financial support for CCS has developed, encompassing public, private and philanthropy funding and investment. This Chapter outlines significant trends in cultural finance over the previous few decades, including traditional public expenditure models, private and philanthropy funding as well as new forms of support for cultural and creative for-profit and non-for-profit organisations.

In Brief

Funding for cultural and creative sectors is an investment, not a cost

- **Investing in cultural and creative sectors (CCS) is important due to the direct and indirect benefits they generate for the economy and the society**. Public support is also important to ensure the preservation of cultural heritage and to facilitate fair access to culture across different population groups. Traditionally, cultural policies and public expenditure in culture has promoted culture as a “merit good”, similarly to education and healthcare.
- **The recognition of the economic impact of CCS broadened the scope of investments beyond cultural policy to a wide range of more industrial policy approaches**. With a growing understanding of the role of CCS in economic development, a more diversified approach to funding CCS has emerged, with a greater emphasis placed on economic returns to government expenditure and a more prominent role for private investors. Consequently, a more complex ecosystem of financial support for CCS has developed, encompassing public, private and philanthropy funding and investment.
- **Culture is increasingly used as a tool for regional development and regeneration.** Local and regional governments have been shifting their policies from the direct support of artists and artistic organisations to policies that target the development of “cultural districts” or support the “creative milieu” of cities and neighbourhoods (see Regional Perspectives in this report).
- **CCS are very diverse, including non-for-profit and for-profit organisations with wide-ranging financing needs.** Libraries and cultural centres, film production companies, circuses, socio-cultural associations, museums, theatre companies, visual artists, design and architectural companies, all belong to CCS, but their business models, cost structures and financing needs are very diverse.
- **Government spending on cultural services has been decreasing, and represents, on average, 1.2% of total government spending across the OECD**. During the growth period preceding the Global Financial Crisis, government expenditure on cultural services was increasing in the majority of OECD countries. However, during the crisis period, this growth in cultural expenditure generally reverted, and crucially, in the post-crisis era growth in government expenditure has generally failed to reach the levels seen pre-2008.
- **Shares of subnational government spending on cultural services are much higher than national shares across OECD.** Subnational governments accounted for almost 60% of total public expenditure towards cultural services in 2019 and spent, on average, 3% of their total spending on cultural services.
- **Household spending on recreation and culture grew by 18% between 2011 and 2019, twice as fast as overall spending, but clearly COVID-19 left a mark**. Recreation and culture accounted for nearly a tenth of aggregate household spending across the OECD. Households spend more on recreation and culture than on restaurants and hotels, furnishing and household equipment or clothing and footwear. In 2020, per capita spending on recreational and cultural services dropped by about 30% relative to 2019, on average.
- **The role of public finance is shifting from direct support to intermediation and strategically channelling private investment.** Public support to CCS could be in the form of direct support through grants, indirect funding through tax reliefs, leveraging private finance, for

instance through public loan guarantees, or matching funds to leverage private investments. Governments are gradually transforming their participation in the financial ecosystem of CCS from direct supporters to intermediaries, leveraging private investment and promoting transversal resources for companies in particular stages.

- **Partnerships and alliances are at the core of the emergence of new financial ecosystems for culture.** Public-private, public-public and public-civic partnerships are increasingly found in many cultural interventions. Since creative and cultural ecosystems include a multiplicity of stakeholders, partnerships between local governments, creatives, and other major contributors are key to enabling a thriving cultural and creative ecosystem, aligning mutual interests and priorities.

Why funding CCS matters

Public support for cultural and creative sectors (CCS) is important due to the direct and indirect benefits they generate for the economy and society. As demonstrated in previous chapters CCS produce creative output, create employment and generate tax revenue. Arts and culture have shown a capacity to combat marginalisation and promote inclusivity in society. They also prove to be effective in improving the well-being and health of cultural participants as well as consumers. Owing to the several advantages that CCS bring to the forefront, public support is important so that these benefits are effectively harnessed to steer growth and development.

Public support facilitates fair access to cultural resources. This includes access to cultural resources for all (intra-generational equity) and at the same time the protection of cultural resources for future generations (inter-generational equity) (Throsby, 2008[1]). Public support can also reduce barriers to entry in the cultural market and barriers to public participation and consumption. It can also support forms of cultural activity that are simply less amenable to market mechanisms but important to preserve.

The evolution of public funding approaches: from market failure to industrial policies

For centuries, art and culture were primarily financed through a philanthropy model of patronage. Artists were funded by wealthy individuals to produce artistic work either for private ownership or for the benefit of the wider community. However, with the invention of the printing press and other forms of content reproduction, art became a commodity which could be mass-produced and therefore mass-consumed, thus introducing the ability for profit-making on a larger scale than could be previously achieved. This turn towards the "commodification" of art and culture relied, to a certain extent, on market forces to which some forms of cultural production were ill-suited.

Since the mid-20th century, public funding for arts and culture has sought to correct market failures. The neo-classical approach to financially supporting CCS addresses the market failures in both supply (imperfect competition, increasing returns of scale in the production of arts, difficult increases in productivity, income redistribution in favour of artists) and demand (merit good similar to education and healthcare, production of spillovers in other fields, hidden demand, public good) (Frey, 2019[2]). Since the mid-20th century, considering the benefits of art and culture to the wider society, governments began to develop systematic approaches to cultural policy, seeking to readdress such market failures and to encourage cultural consumption by directly financing arts and culture. This market failure approach to cultural policy was sustained until the mid-1980s when policy makers started to recognise the extent to which these sectors were not only benefiting society, but were also contributing to economic growth and development. This major shift in political attitudes towards arts and culture was reflected in widespread policy changes throughout the 1990s with the inclusion of creative industries in many government policy agendas. As a result, governments increasingly promoted private investment in cultural and creative sectors as the main driver of financial sustainability.

The recognition of the economic impact of CCS broadened the scope of investments from market failure approaches to a wide range of more industrial policy approaches, increasingly centred upon creative entrepreneurship. Since the 1990s, both academia and policymakers acknowledged the creative economy as a source of competitiveness. CCS represent not only a source of employment and growth but also a driver for innovation and cross-fertilisation with other sectors of the economy (see Chapter 4). Cultural policy, following other policy domains, has broadened its focus towards more "cost-effective" and commercially oriented approaches to supporting CCS. This has led to public financing addressing the needs of CCS from a business perspective: from cultural start-up subsidies to the establishment of digital platforms to share content and knowledge.

The shift towards commercialisation has also had ramifications for the management of cultural organisations. Public policies are under pressure to adapt a new form of public management inspired by the principles that guide the private sector. These principles are largely based on the introduction of competition, outcome orientation, and market-based operation, highlighting the need for accountability (OECD, 2018[3]). Similar principles are increasingly applied to the management of cultural organisations.

A complex financial ecosystem to support a very diverse sector

Public, private and philanthropy funding are all used to finance CCS. Rather than relying solely on public or private funding sources, CCS are now part of a complex financial ecosystem encompassing a diversity of actors and resources, with the majority of organisations in CCS relying on funding from a mixture of different sources. Consequently, much government policy at a national and regional level has sought to facilitate greater integration of public, private and philanthropic funding of CCS.

Given the diversity of organisations and firms in CCS and their needs, there is no uniform funding model. CCS incorporate some sectors which are largely subsidised, such as museums and theatres, and some which are more or even mostly market-driven, such as architecture or advertising (Throsby, 2008[4]). The motivations are diverse, with some sectors motivated primarily by the desire to fulfil social goals and others more oriented towards profit-making. Moreover, the business models, cost structures and financing needs of organisations within these also vary. For example, organisations with their own infrastructure, such as museums, will have high fixed costs and possibly also a potential source of income (see Sectoral Perspectives in this report), whereas a craft worker may have high variable costs. Similarly, audio-visual productions demand a large amount of pre-financing, but they have the potential for generating substantial revenues over time. In live performance sectors such as theatre, higher variable costs must be met by a smaller market, curtailed by limits to physical attendance, although digital technologies offer new possibilities whose real market potential is still under exploration. Moreover, each sector encompasses a range of different business orientations, including the provision of goods or the provision of services to either consumers or to other businesses, and a range of different non-profit actors. Consequently, there is no single model of financial ecosystems for CCS.

The distinction between public and private organisations in the cultural sector is getting blurred. This ‘‘hybridisation’’ consists of the emergence of a variety of mixed forms of governance with both public and private stakeholders. Hybrid organisations rely on both private and public finance which comes from different levels of government and/or public agencies.

Governments have an important role to play in developing policy which can support the complex financing needs of CCS. The role of governments in CCS financial ecosystems is no longer simply as a funder of CCS activity, though this is still important, but rather to help facilitate the interplay of public and private actors in the financing of CCS and to provide the conditions and incentives for organisations to flourish. To do so, policy makers have to balance tensions between supporting both profit-making and non-profit making cultural and creative activity, and the benefits of CCS for both economic gain and social good.

Overview of government and household spending on culture in OECD countries

Government spending on cultural services across OECD countries

In 2019, on average, 1.2% of total government spending was devoted to cultural services across the OECD. Government expenditure on cultural services includes spending on a range of cultural activities (see Box 5.1 and Chapter 1 for further information). Across OECD countries, government spending on cultural services as a proportion of total spending varies widely. For example, Estonia, Latvia, Hungary, and Iceland spent almost 3% of their national government expenditure on cultural services, while the United Kingdom, Greece, and Costa Rica spent less than half a percent (Figure 5.1).

Box 5.1. Components of government spending on recreation, culture, and religion

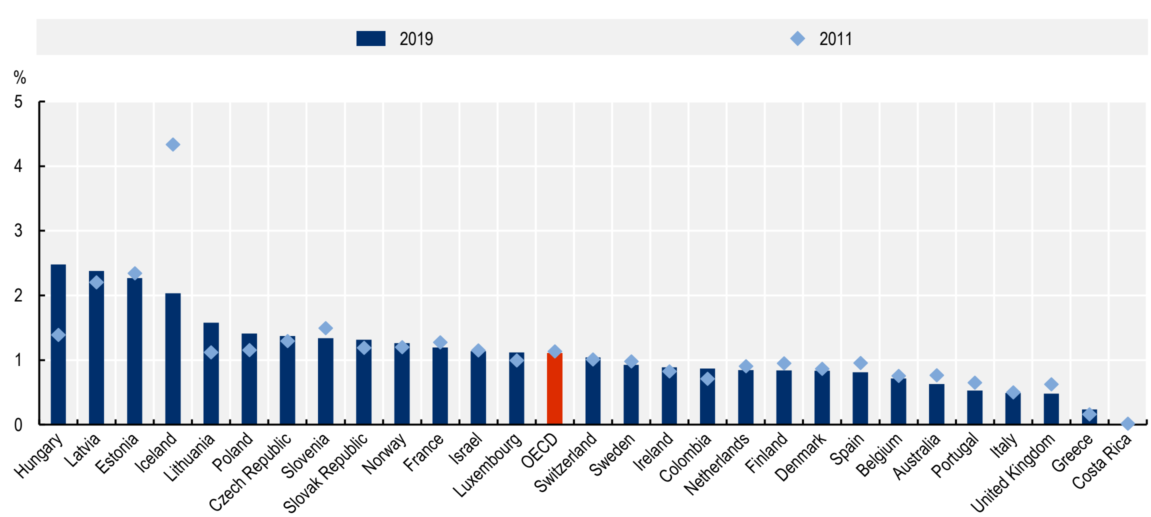
What's included?

Government spending on recreation, culture, and religion includes expenditure on services provided to individual persons and households, expenditure on services provided on a collective basis, as well as capital expenditure (capital transfers and direct investment). Individual expenditure is allocated to groups (1) and (2); expenditure on collective services is assigned to groups (3) to (6). Collective services are provided to the community as a whole.

1. Recreational and sporting services
2. Cultural services:
   Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities; operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation or support of cultural events (concerts, stage and film productions, art shows, etc.); grants, loans or subsidies to support individual artists, writers, designers, composers and others working in the arts or to organizations engaged in promoting cultural activities. Includes: national, regional or local celebrations provided they are not intended chiefly to attract tourists. Excludes: cultural events intended for presentation beyond national boundaries (01.13); national, regional or local celebrations intended chiefly to attract tourists (04.73); production of cultural material intended for distribution by broadcasting (08.30)
3. Broadcasting and publishing services
4. Religious and other community services
5. R&D recreation, culture, and religion
6. Recreation, culture and religion n.e.c.

Source: Eurostat (2019[5]), *Manual on Sources and Methods for the Compilation of COFOG Statistics*, European Union, Luxembourg.

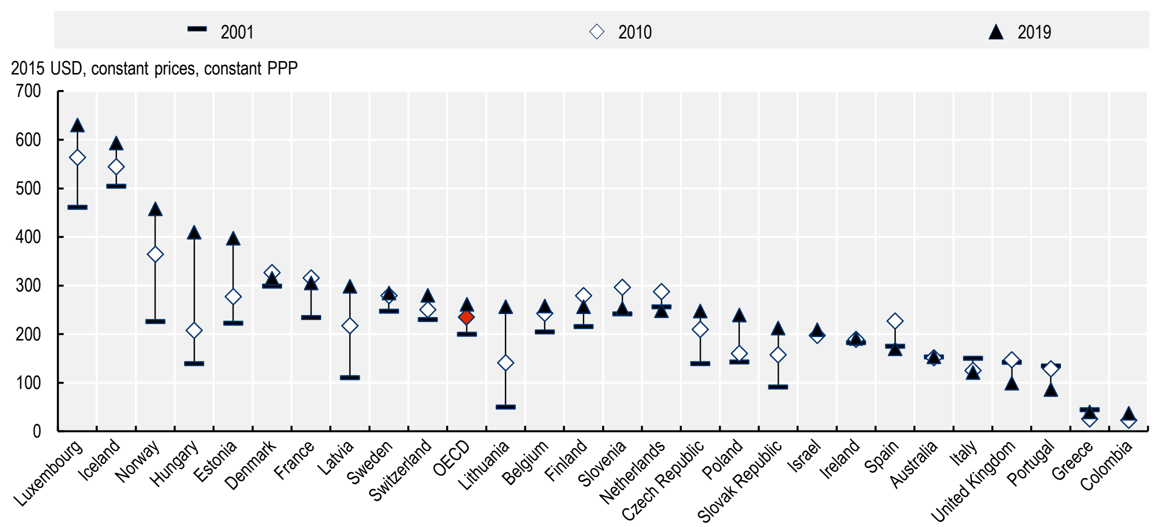
Figure 5.1. Cultural services as a share of total government spending, 2011 and 2019



Note: Data for Israel in 2011 refers to 2013, data for Costa Rica in 2019 refers to 2017, and data for Costa Rica in 2011 refers to 2012.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG)*, http://dx.doi.org/10.1787/na-data-en.

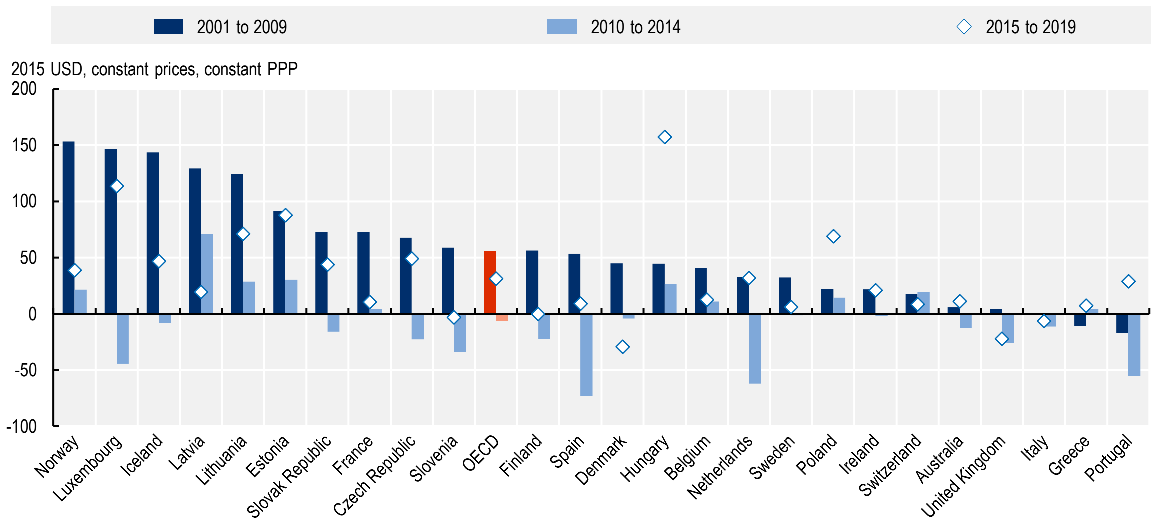
The Global Financial Crisis (GFC) in 2008 represented a turning point in government financing of culture at the national level. Whilst there was a slight increase in overall per capita spending on cultural services by OECD countries between 2001 and 2019 (Figure 5.2), these figures mask a general decline in growth rates of government expenditure experienced before the GFC. Considering three periods: pre-crisis (2001-09), crisis (2010-14) and post-crisis (2015-19), government cultural expenditure exhibits clear trends (see Figure 5.3). The pre-crisis or economic expansion cycle denotes increases in general government budgets reflected in increases in government expenditure on cultural services for the majority of OECD countries. However, during the crisis period, this growth in cultural expenditure generally reverted, with expenditure declining across OECD countries as a group between 2010 and 2014. Crucially, in the post-crisis era, growth in government expenditure has generally failed to reach the levels seen before the crisis, with the proportion of government spending across OECD countries as a group slightly falling from 1.3% in 2011 to 1.2% in 2019.

Figure 5.2. Per capita total government spending on cultural services, 2001, 2010, 2019



Note: Data for Israel in 2010 is from 2013. Data was not available for Israel and Colombia for 2001.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG)*, http://dx.doi.org/10.1787/na-data-en.

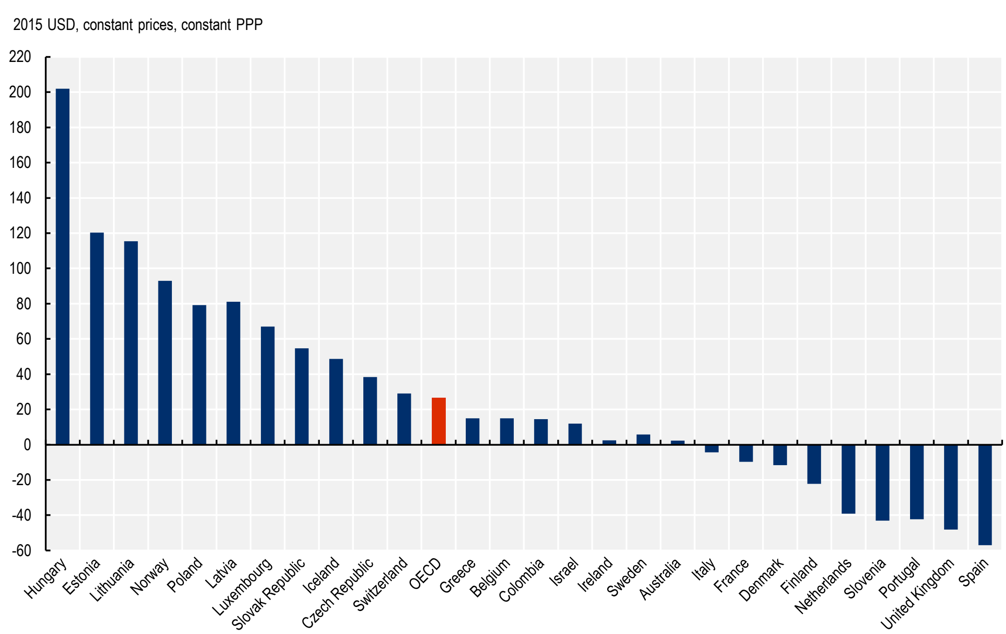
Figure 5.3. Difference in per capita total government spending on cultural services, 2001 to 2009, 2010 to 2014, and 2015 to 2019



Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG)*, http://dx.doi.org/10.1787/na-data-en.

Since 2010, there has been a slight increase in per capita total government spending on cultural services on average, but different spending patterns are evident. Figure 5.4 shows changes in government expenditure on culture between the GFC period and subsequent recovery. There were more countries with increasing per capita total government spending during this period (Northern and Central Europe), but a notable number of countries with declining spending. France, Italy, the Netherlands, Portugal, Slovenia, Spain and the United Kingdom, are among the countries which saw a drop in total per capita total government spending on cultural services since post-GFC.

Figure 5.4. Difference in per capita total government spending on cultural services, 2010 to 2019

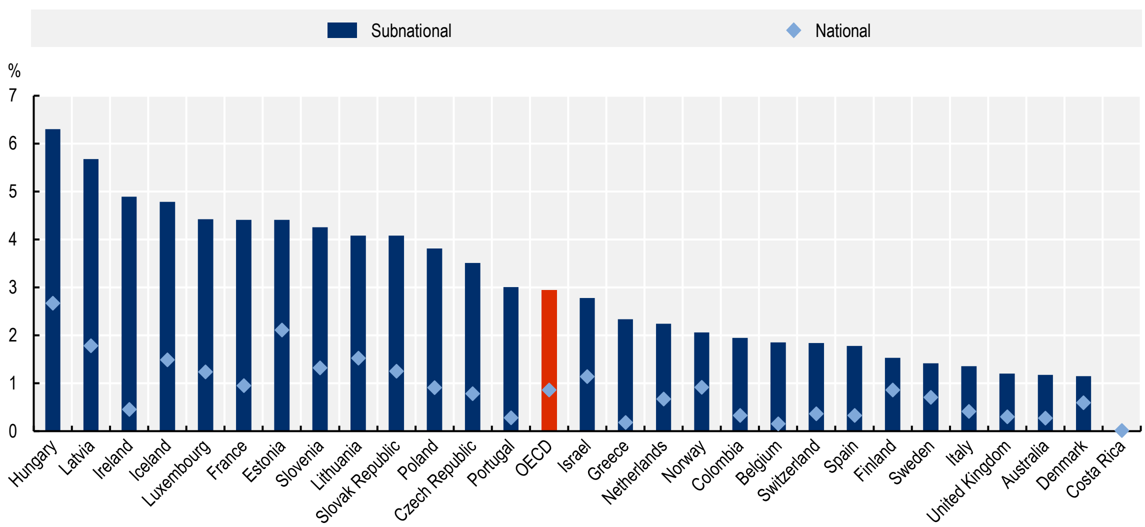


Note: Data for Israel in 2010 refers to 2013.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG)*, http://dx.doi.org/10.1787/na-data-en.

Shares of subnational government spending on cultural services are much higher than national shares across OECD countries. Figure 5.5 compares cultural spending as a share of national government spending and subnational government spending in 2019. For example, in Hungary and Latvia, subnational governments spent more than 5% of their total spending on cultural services while their respective national governments spent less than 3%.

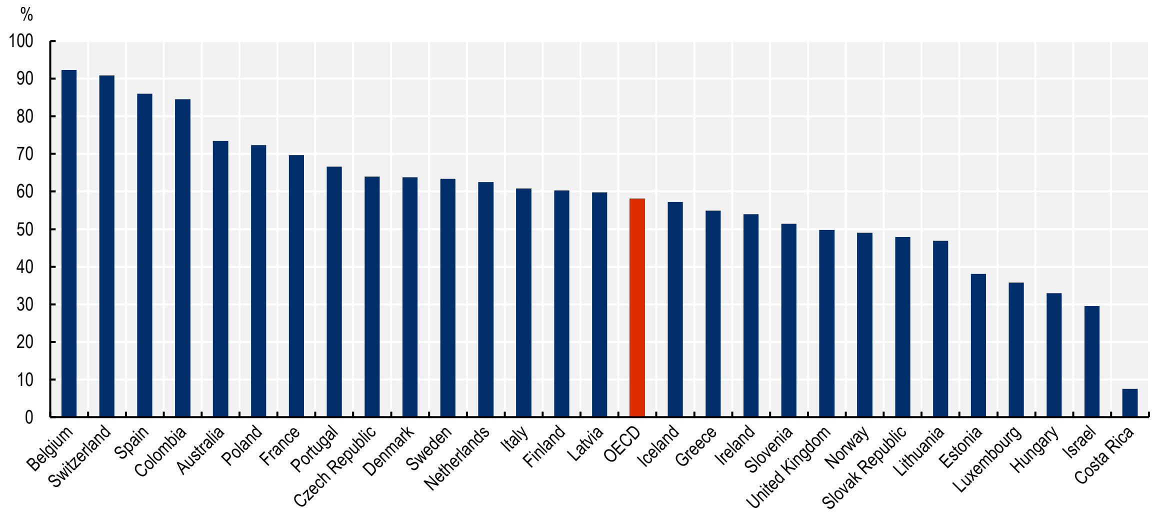
Subnational governments accounted for almost 60% of total public expenditure towards cultural services in 2019 on average in the OECD. As shown in Figure 5.6, in Belgium, Switzerland, Spain, and Colombia, subnational governments accounted for over 80% of total spending on cultural services, while in Luxembourg, Estonia, Hungary, Israel, and Costa Rica, subnational governments accounted for less than 40% of the public spending on cultural services.

Figure 5.5. Cultural services as a share of subnational and national government spending, 2019



Note: Subnational refers to the combination of state and local government spending. Data for Costa Rica in 2011 refers to 2012, and data for Costa Rica in 2019 refers to 2017.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG),* http://dx.doi.org/10.1787/na-data-en.

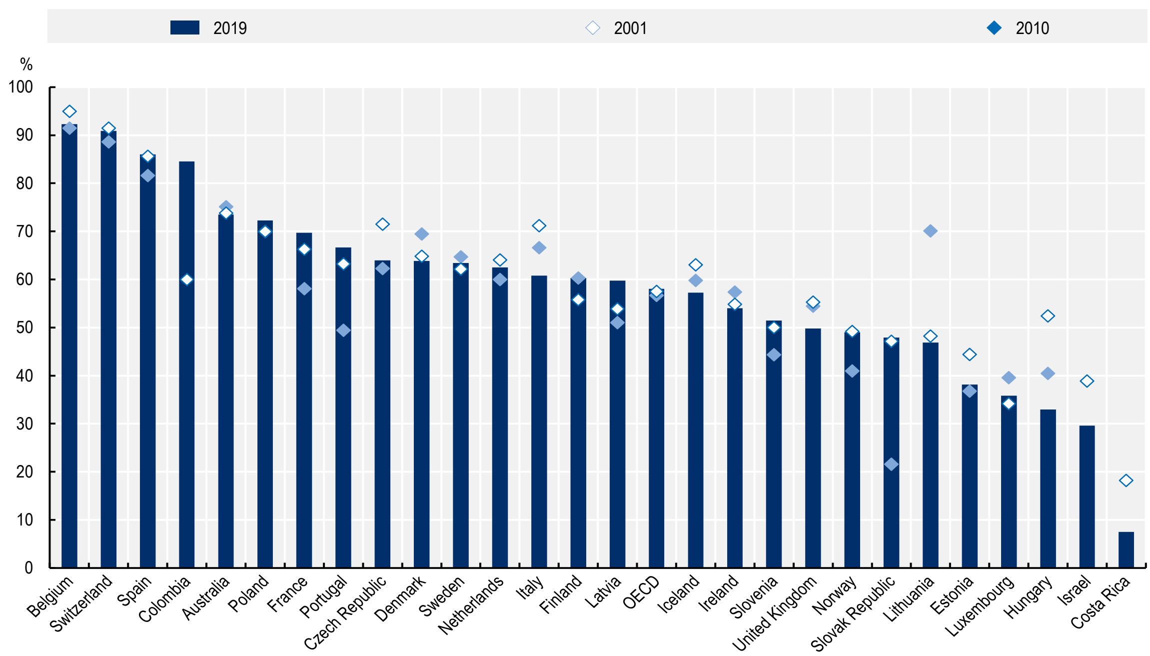
Figure 5.6. Subnational government spending on cultural services as a share of total spending on cultural services, 2019



Note: Data for Costa Rica is for 2017.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG),* http://dx.doi.org/10.1787/na-data-en.

The proportion of total government spending on cultural services attributed to subnational governments has remained relatively stable since 2001, with some notable exceptions (Figure 5.7). For example, subnational governments in Colombia accounted for 85% of total government spending on cultural services in 2019, which represents a 25% increase in the share since 2010. On the other hand, Hungary, Israel, and Costa Rica were among the countries where the share of total government spending on cultural services attributed to subnational government declined since 2010.

Figure 5.7. Subnational government spending on cultural services as a share of total government spending on cultural services, 2001, 2010, and 2019



Note: Israel data for 2010 refers to 2013; Data for Costa Rica in 2010 refers to 2012, and data for 2019 refers to 2017.
Source: OECD (2022[6]), *National Accounts Statistics - Government expenditure by function (COFOG)*, http://dx.doi.org/10.1787/na-data-en.

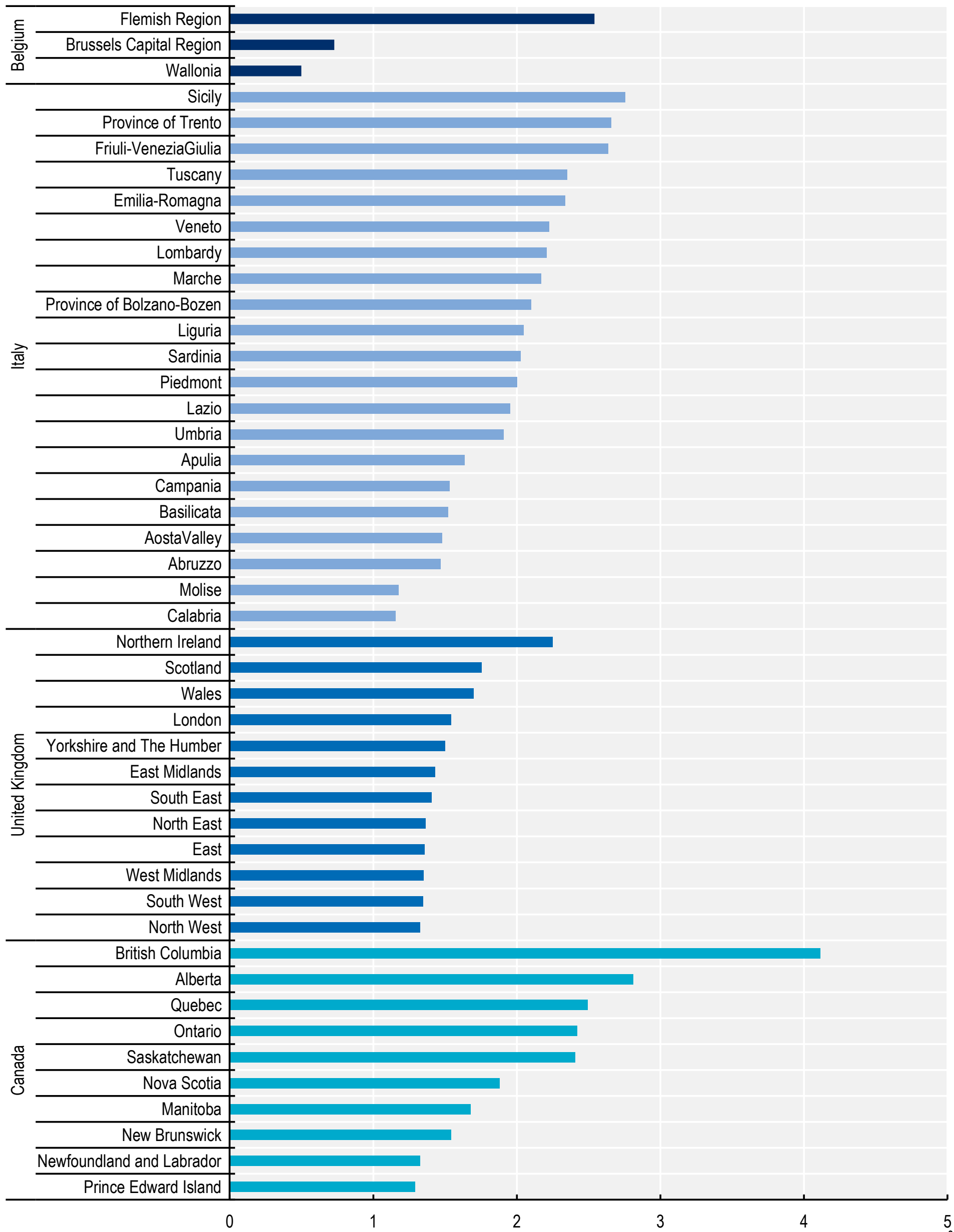
Subnational government spending on recreation, culture and religion varies considerably within countries. For instance, in Belgium, it varies from 2.5% in the Flemish Region to 0.5% in Wallonia (see Figure 5.8). Likewise in Italy, it varies from 2.8% in Sicily to 1.2% in Calabria. In the United Kingdom, Northern Ireland spends 2.2% on recreation, culture and religion while North West England spends 1.2%. In Canada, this share ranges from a high of 4.1% in British Columbia to a low of 1.3% in Prince Edward Island. Although recreation, culture and religion are a broader category than cultural services and the share of spending allocated to cultural services will be lower, but nonetheless, the regional differences are likely to remain.

Capital city or economic centre status plays a key role in the funding of CCS. The World Cities Finance Report (BOP Consulting, 2017[7]) shows that three of the sixteen cities analysed - Paris, London and Moscow – received large amounts of funding from national governments. Capital cities and economic centres, such as New York and Istanbul, have benefited from subsequent waves of national government investment which have generated a unique system of cultural infrastructure and qualified labour that constantly requires large amounts of resources.

Subnational government finances have been strongly hit by the COVID-19 crisis. Data for 2020 confirm the negative impact of the crisis on subnational government expenditure and tax revenue. This impact is, however, of a lower magnitude than what initial surveys indicated in some countries, such as Finland, France, Germany, Japan, and Spain. This can be attributed, at least in part, to significant central/federal government measures to support local finance, as well as savings in expenditures, and deferrals or cancellations of investment projects. However, considerable uncertainty over the longer term remains due to a number of factors including uncertainties around the health situation, the fact that many essential expenditures that were deferred in 2020 cannot be deferred indefinitely, and that in many countries tax revenues in 2020 reflected activities in 2019, not 2020. In addition, the impact on subnational finance in 2021 and 2022 will depend on the continuation and extent of support provided by higher levels of government (OECD, 2021[8]).

Figure 5.8. Recreation, culture and religion as a share of subnational government spending, 2019 or latest available year

Belgium, Italy, United Kingdom, and Canada



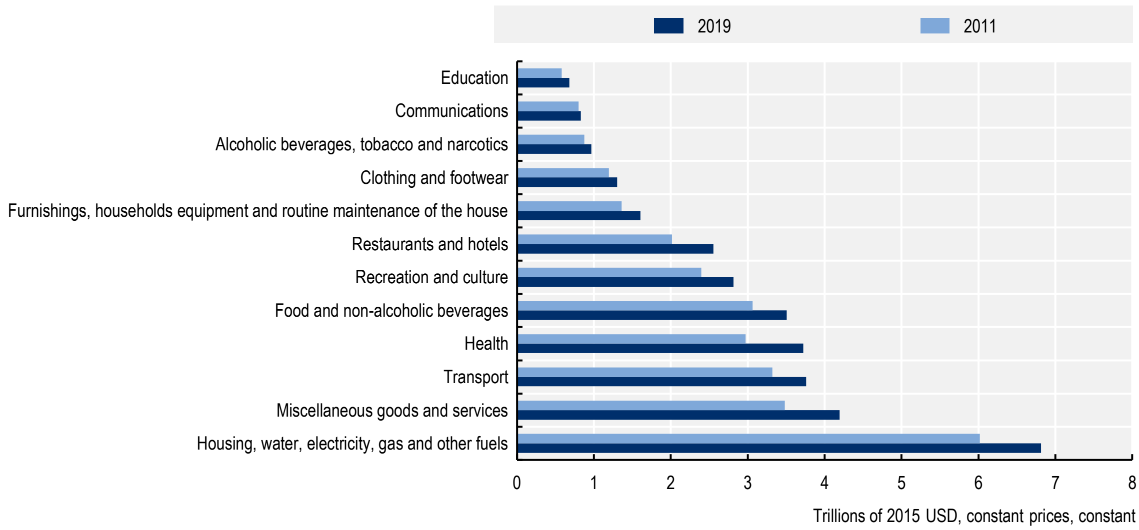
Note: Data for Italy is from 2018.

Source: National Bank of Belgium online statistics (2021[9]), *Government spending by functions and transactions*, https://stat.nbb.be/Index.aspx?DataSetCode=NFGOVCOFOG; ISTAT (2020[10]) *National Accounts regional main aggregates: Final consumption expenditure of general government by function*, http://dati.istat.it/Index.aspx?QueryId=11482&lang=en; UK Office for National Statistics (2021[11]) *Country and regional public sector finances expenditure tables*, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/countryandregionalpublicsectorfinanceexpenditturetables; Statistics Canada (2021[12]), *Canadian Classification of Functions of Government,* https://doi.org/10.25318/1010000501-eng

Household spending on recreation and culture

Household spending on recreation and culture grew by 18% between 2011 and 2019. As illustrated in Figure 5.9, at USD 3 trillion (2015 dollars), recreation and culture accounted for nearly a tenth of aggregate household spending across OECD countries in 2019, making it the sixth highest spending category out of twelve (also the case in 2011).

Figure 5.9. Total household spending by category across the OECD, 2011 and 2019



Source: OECD (2022[6]), *National Accounts Statistics - Final consumption expenditure of households,* http://dx.doi.org/10.1787/na-data-en.

Recreational and cultural services (a sub-category of recreation and culture) also represent an increasing share of household spending across the OECD. Figure 5.10 shows that recreational and cultural services accounted for 3.5% of total household spending across OECD countries in 2019, up from 3.1% in 2011. In Iceland, Denmark, Sweden, Norway, and Latvia, it represented more than 4% of total household spending. However, the COVID-19 pandemic put a dent in this spending category and may leave long-lasting effects going forward. It should be noted, however, that the recreation and cultural services category includes some activities which are beyond the scope of CCS as defined in this report, such as sports and gambling payments (see Box 5.2). Most data sources do not disaggregate data at this level of detail (however, the United Kingdom Office for National Statistics shows that, between 2016 and 2018, sports admissions made up about a third of the spending on recreational and cultural services and gambling payments made up about 12%. Canadian data from 2019 shows that sports and recreation accounted for 28% of recreational and cultural services spending while games of chance accounted for about 38%).

Box 5.2. Household spending on recreation and culture

What's included?

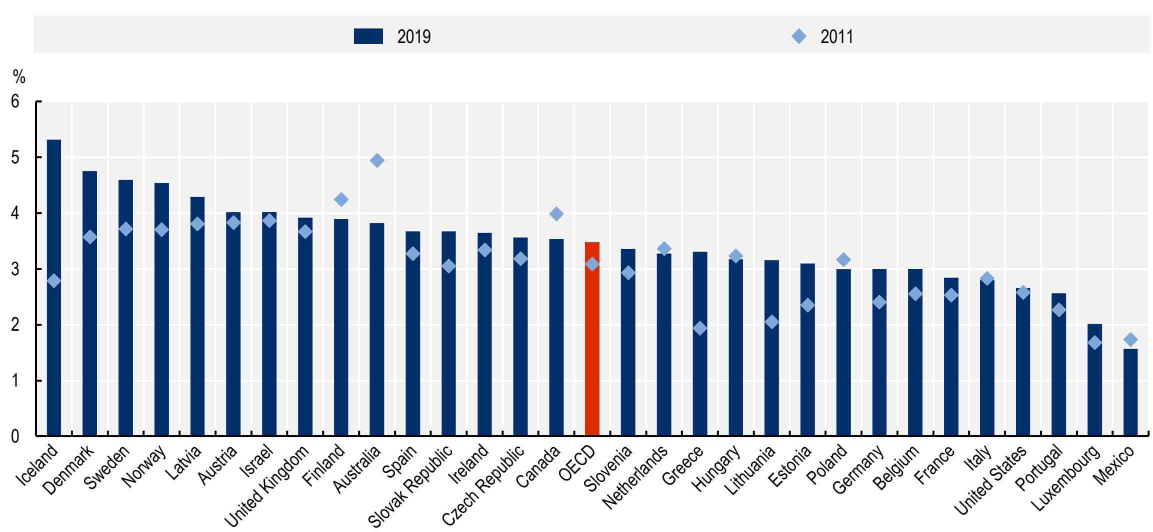
Household spending on recreation and culture includes the following categories:

- Audio visual, photographic and information processing equipment
- Other major durables for recreation and culture

- Other recreational items and equipment, gardens and pets
- Recreational and cultural services:
  - Hire and repair of photographic and cinematographic equipment and optical instruments
  - Hire, maintenance and repair of major durables for recreation
  - Hire and repair of games, toys and hobbies
  - Hire and repair of equipment for sport, camping and open-air recreation
  - Veterinary and other services for pets
  - Recreational and sporting services
  - Games of chance
  - Services provided by cinemas, theatres and concert venues
  - Services provided by museums, libraries, and cultural sites
  - Photographic services
  - Other cultural services
- Newspapers, books and stationery
- Package holidays

Source: UN (2018[13]), *Classification of Individual Consumption According to Purpose (COICOP)*, United Nations, New York.

Figure 5.10. Recreation and cultural services as a share of total household spending across OECD countries, 2011 and 2019

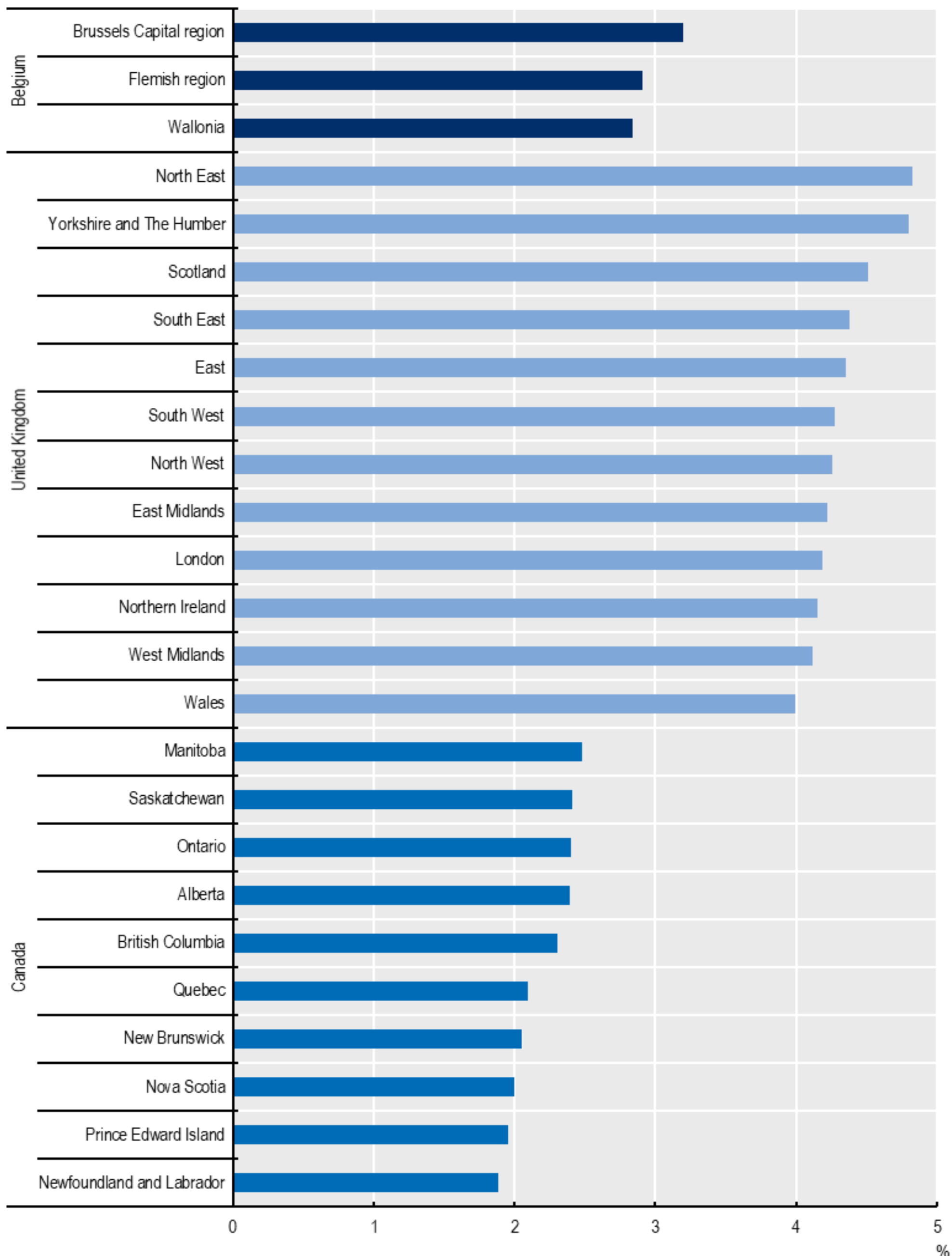


Note: Latest data for Norway was from 2018.
Source: OECD (2022[6]), *National Accounts Statistics - Final consumption expenditure of households*, http://dx.doi.org/10.1787/na-data-en.

Household spending on recreational and cultural services varies within countries. In Belgium, the share of household spending on recreational and cultural services, in 2018, ranged from 3.2% in Brussels Capital Region to 2.8% in Wallonia (see Figure 5.11). In the United Kingdom, it varied from a high of 4.8% in North East England, to 4% in Wales. In Canada, Manitoba had the highest share in 2019 at 2.5% while Newfoundland and Labrador had the lowest share at 1.9%. While regional data for recreational and cultural services were not available for Italy, the broader category, "recreation and culture" can be used for inter-regional comparison. In 2018, Piedmont had the highest share of spending in this category at 8% while Sicily had the lowest at 5% (see Figure 5.12).

Figure 5.11. Recreational and cultural services as a share of total household spending, 2019 or latest available year

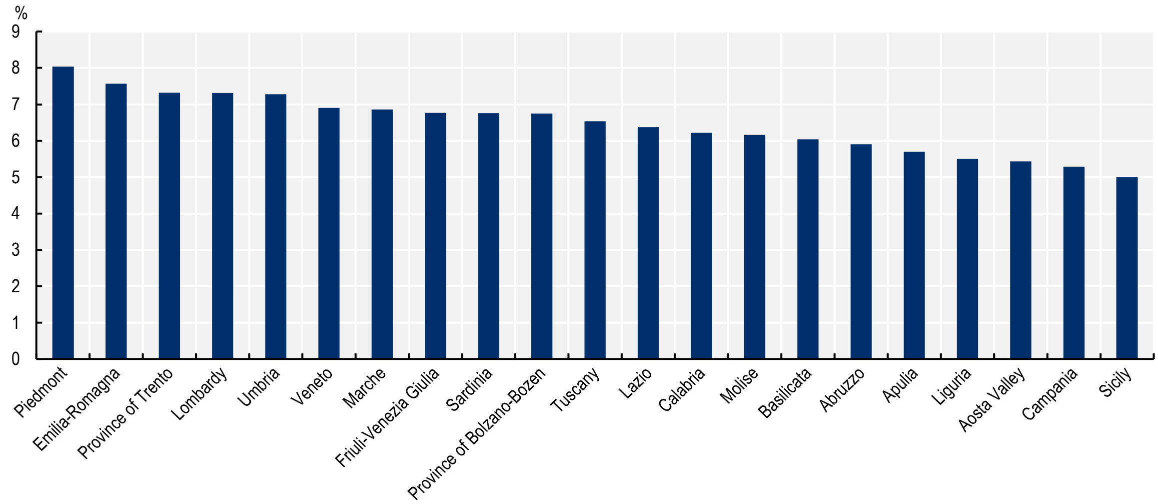
Belgium, United Kingdom, and Canada



Note: Data for Belgium is from 2018; Data for the United Kingdom are based on the 2016-18 average weekly household spending. Recreational and cultural services spending in Canada was estimated by aggregating recreational and sporting services, cable, satellite and other programme distribution services, cinemas, photographic services, and other cultural services.

Source: National Bank of Belgium online statistics (n.d.[14]), *Household consumption by category*, https://stat.nbb.be/Index.aspx?DataSetCode=REGP3S14; UK Office for National Statistics (2019[15]), *Detailed household expenditure by countries and regions*, https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/detailedhouseholdexpenditurebycountriesandregionsuktablea35; Statistics Canada (n.d.[16]), *Detailed household final consumption expenditure, provincial and territorial*, https://doi.org/10.25318/3610022501-eng.

Figure 5.12. Recreation and culture as a share of total household spending across Italy, 2018

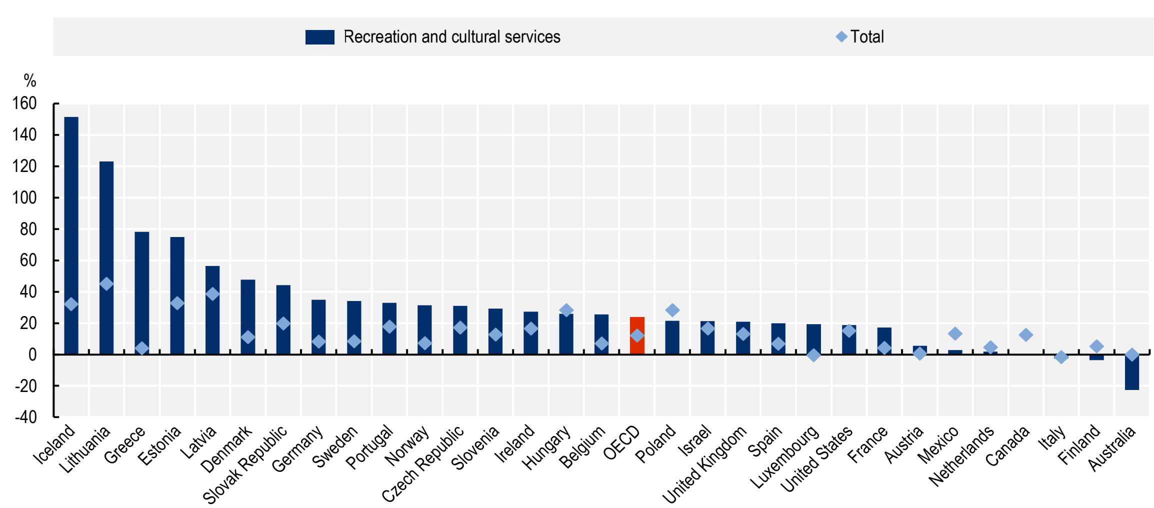


Note: Recreation and culture is a broader category than "recreational and cultural services".
Source: ISTAT (n.d.[17]), *National Accounts regional main aggregates: Final consumption expenditure of households by expenditure item (Coicop 2 digit) and durability*, http://dati.istat.it/Index.aspx?QueryId=11481&lang=en.

Between 2011 and 2019, per capita household spending on recreational and cultural services grew twice as fast as overall spending, but clearly COVID-19 left a mark. As shown in Figure 5.13, per capita household spending on recreational and cultural services grew by 24% across the OECD between 2011 and 2019, outpacing overall per capita spending which grew by 12% during the same period. Iceland, Lithuania, Greece, and Estonia experienced the highest per capita growth among OECD countries, while Italy, Finland, and Australia saw a decline. The pandemic has essentially erased some of the growth across OECD countries (see Figure 5.14). In 2020, per capita spending on recreational and cultural services dropped by about 30% since 2019, on average, with Spain's spending dropping by nearly 50%.

Figure 5.13. Per capita household spending on recreational and cultural services, 2011 to 2019

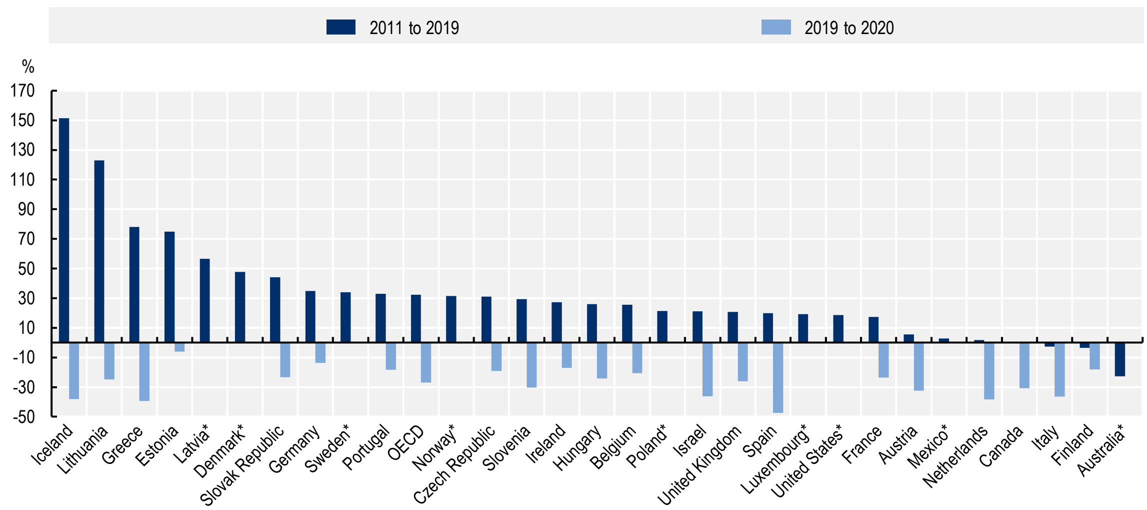
Per capita household spending growth



Note: Latest data for Norway was from 2018.
Source: OECD (2022[6]), *National Accounts Statistics - Final consumption expenditure of households*, http://dx.doi.org/10.1787/na-data-en.

Figure 5.14. COVID-19 has cut into some of the growth in per capita household spending on recreational and cultural services, 2011 to 2019, 2019 to 2020

Real per capita household spending growth on recreational and cultural services



Note: Latest data for Norway is from 2018. * indicates countries for which 2020 data were not available.
Source: OECD (2022[6]), *National Accounts Statistics - Final consumption expenditure of households*, http://dx.doi.org/10.1787/na-data-en.

Household spending is an important indicator in terms of funding for the more market-oriented side of cultural and creative sectors. This is especially important for entertainment-related content, whose main source of revenue is consumer demand. The effect of the pandemic is clearly legible, even in countries that were in the middle of a decade-long, high growth in expenditure. In assessing differences in growth in cultural expenditure, it is important to keep in mind that absolute levels of expenditure may significantly differ across countries. This means that a decrease in expenditure for a given country may still mean that its absolute level of spending is higher than that of a country where spending grows quickly.

Moreover, the change in household spending has not affected all cultural producers uniformly. In some cases, the pandemic crisis has also boosted the demand for certain types of cultural and creative content, namely that related to digital entertainment platforms which have been massively favoured by the new demand caused by the stay-at-home restrictions. As such digital platforms typically are big players with large and solid access to financial markets, the redistribution effect of the pandemic shock may have caused a further shift of demand and profitability from small, precarious content producers to large, well-funded ones. This effect could be difficult to cancel even after the pandemic is over insofar as it changes at least to some extent the demand habits and attitudes of cultural and creative content consumers.

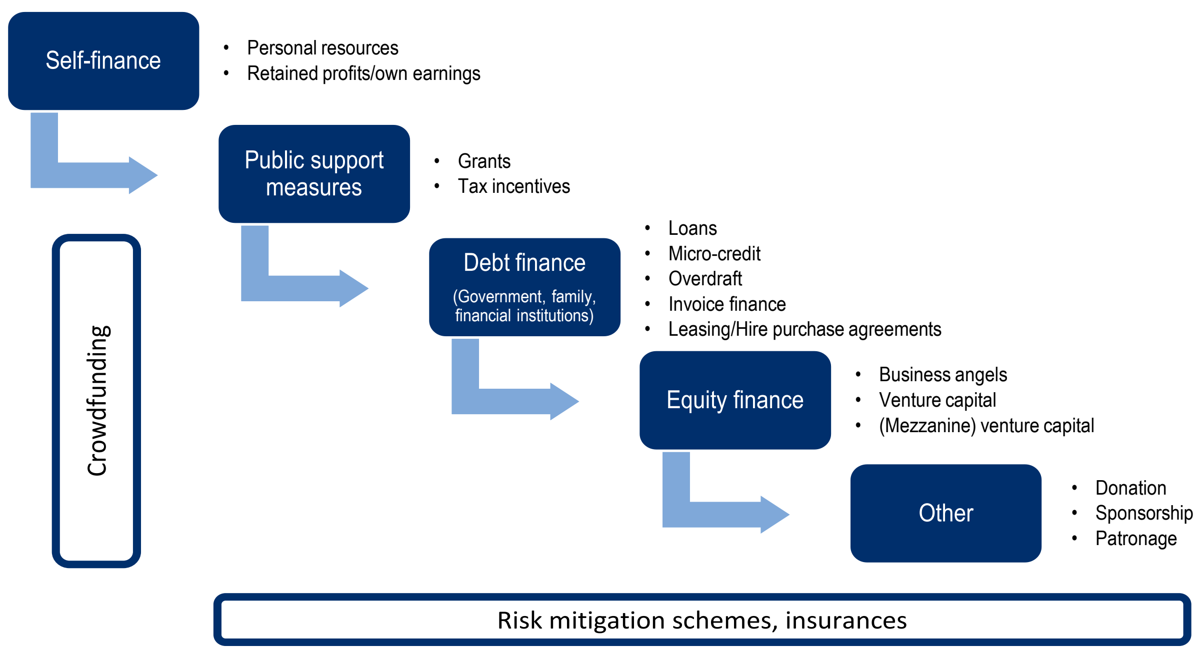
A particularly serious effect is caused in those contexts where the pandemic has disrupted the primary source of market revenue of producers. This is the case, for example, of musicians who have their main source of income in live concerts whereas they have very small returns from the online broadcasting of their music on large platforms. The latter cannot be a full substitute for the former even if the demand for online streaming of music increases substantially. In this case, therefore, the net benefit accrues to the platform owners but only minimally to the cultural producers. However, while the crisis has stricken a serious blow to the future sustainability of some cultural and creative producers, it may also become a stimulus for an acceleration in the evolution of new business models.

Financial ecosystems and sources of finance for CCS

Possible sources for CCS finance

CCS financial ecosystems are complex and not only driven by banking support or public investment. Cultural and creative sectors benefit from a wide range of possible finance mechanisms: from self-finance to public and private finance (see Figure 5.15).

Figure 5.15. Typology of funding sources



Source: OMC (2016[18]), *Towards More Efficient Financial Ecosystems*, http://dx.doi.org/10.2766/59318.

There are five main sources of finance for cultural and creative businesses and organisations. First, as identified in the above typology, self-finance which for many start-ups and small- and medium-sized enterprises (SMEs) may include personal investment, and for more established organisations is likely to be the result of reinvestment of existing profits. Second, there is public sector finance, in the form of either direct grants or in a range of potential tax incentives. Third is debt finance, including both secure (where some form of collateral is offered if the loan is not repaid) and unsecure (where no collateral is offered) loan arrangements. This type of financing source is one of the most common forms of financing for businesses in any sector, but carries inherent risk. Fourth is equity finance, in which money is exchanged for part-ownership or shares in the company. And finally, there are sponsorship and patronage sources, where money is freely offered to companies for communication, charitable or philanthropic reasons. From this typology a number of key actors can be identified: the firms and organisations themselves, governments (both national and sub-national), financial institutions, business angels and venture capital investors and audiences, publics and communities. It is the combination of each of these actors and each of these mechanisms for funding CCS which shapes the financial ecosystem.

Financial ecosystems in support of CCS

The CCS financial ecosystem is defined by a number of internal and external factors. The CCS financial ecosystem includes aspects that are internal to the organisation (i.e., their financial situation, the composition of their labour force, their own organisational schemes, their business models etc.) and others that are external to the organisation (i.e., the availability of and access to financial sources, the position of the company in the market, the existing regulatory framework, the policy support, etc.) (Table 5.1).

Table 5.1. Considerations on financial ecosystems of CCS

Internal	External (finance)	External (market)	Policy framework and regulations

• **Company's financial situation**
  • Own capital
  • Liquidity
  • Available collateral
• **Skills and financial know-how**
  • Creative skills
  • Management skills
  • Financial skills
	• **Supporters**
	  • Family and friends
	  • Business angels
	  • Incubators
	  • Accelerators
	  • Universities
	• **Finance providers**
	  • Private: banks, business angels, family, crowdfunding, …
	  • Public: subsidies, vouchers, etc.
		• **Market dynamics**
		  • Size of the market
		  • Trend of the market (decline or growth)
		  • Risk related to the market
		• **Reputation of the sector** (media, opinion leaders, other gatekeepers, …)
			• State aid: direct and indirect
			• Indicators of effective finance (Basel III)
			• State aid rules
			• Alternative finance regulations
			• Intellectual property regulations

Source: OMC (2016[18]), *Towards More Efficient Financial Ecosystems*, http://dx.doi.org/10.2766/59318.

The policy frameworks and the existing regulations at global, national, and local levels determine the opportunities for interaction of all the participants in the ecosystem (OMC, 2016[18]). Policy and funding frameworks vary across countries from a highly state-powered approach, where the public sector is the main provider of support and funding, to a strongly privately supported sector, where increasingly effective market connections between cultural producers and private funders have been developed. The former approach has been mainly adopted by European countries to a varying degree, whereas the latter has prevailed in the US. There are also "mixed" models where cultural productions rely upon a mix of funding sources, namely, public, private, and earned. This has been the so-called "tripod model", and has been embraced in Canada and increasingly in Europe. Moreover, the shares of earned income and public and private funding for arts and cultural organisations continue to evolve (see Box 5.3).

Box 5.3. The evolution of public and private funding for arts and cultural organisations in the United Kingdom, Australia and Canada

There is a general shift from public funding to earned revenues as a source of income for arts and cultural organisations in the United Kingdom (UK). As shown in the previous sections, the UK has one of the lowest rates of government expenditure on cultural services across OECD countries. However, this shortfall appears to be addressed by large amounts of investment from the private sector. The Arts & Business Survey conducted in the United Kingdom in 2018 shows a general shift from public funding to earned revenues as a source of income for arts and cultural organisations in the UK. While in 2009/10, 38% of the income of UK cultural organisations was earned income through ticketing, sales, etc., by 2017/18 this had risen to 52%. Meanwhile, public funding, including that from governmental departments, the Arts Council, and national lottery funds, which amounted to 47% of the total in 2009/10, decreased to 33% in 2017/18.

91% of cultural organisations had received some form of private investment, making it the most common source of income in the sector in the UK. In 2017/18, private financing represented around 15% of cultural organisations' income. The largest source of private financing came from individual giving, amounting to 43% of private funding, with a further 38% coming from trusts and foundations and 18% from business investment. Specifically, visual arts, museums, music and theatre received the most support from private investment. Combined arts, dance and literature were less attractive for private investment. Not surprisingly, larger organisations manage to achieve a higher proportion of earned income, while smaller organisations are significantly more reliant on public funding and private investment.

Private sector support for the arts has also been shown to be growing in Australia. According to the "Private sector support for the arts in Australia"' paper, which is a product of a collaboration between the Bureau of Communications and Arts Research and Creative Partnerships Australia, the overall private sector support for the arts in Australia was estimated to have grown over a period of 6 years, from AUD 221.1 million in 2009-10 to between AUD 268.5 million and AUD 279.8 million in 2015-16. However, COVID-19 has had a significant effect on private funding offers in Australia. Recent data from Creative Partnerships Australia shows that private funding for the arts declined by 11% between 2018 and 2020. This was largely driven by a steep decline in the value of in-kind sponsorships, volunteer and pro bono support, and bequests, while cash donations and cash sponsorships actually increased during this period.

In Canada, private support for the arts follows a "mixed" or "balanced" model. This means that non-profit arts organisations rely on a combination of public, private, and earned revenues. For example, in 2020, non-profit performing arts companies in Canada derived around 42% of revenue from the public sector and 27% from the private sector, with the remaining revenues coming from performance, licencing and other sales.

Source: Arts Council of England (2019[19]), *Private Investment in Culture Survey*, https://www.artscouncil.org.uk/publication/private-investment-culture-survey; Bureau of Communications and Arts Research (2017[20]), *Private Sector Support for the Arts in Australia;* Creative Partnerships Australia (2020[21]), *Giving Attitude: Private Sector Support Survey 2020,* https://creativepartnerships.gov.au/wp-content/uploads/2021/12/CPA-Giving-Attitude-2020_Private-Sector-Support-Survey.pdf; Statistics Canada (2022[22]), *Performing arts, detailed sources of revenue, not-for-profit,* http://dx.doi.org/10.25318/2110018701-eng.

In a similar vein, the governance and management models of organisations that directly receive public funds present significant differences. The two extremes of the range include, on the one side, governments that own, manage and fund their own cultural facilities, a vertically integrated model of cultural policy. On the other side, there is a shared responsibility with other actors, either by means of outsourced management of cultural facilities and events to for-profit and non-for-profit organisations, or of grant-funded independent organisations.

The new forms of cultural and creative production (e.g. co-creation with audiences) are reflected in the forms of financial support. In view of this increasing complexity of production processes, conventional forms of funding or investment are encountering more difficulties to identify where resources are needed or how subsidies or grants might adequately reach the desired target. Thus, in parallel to the emergence of innovative approaches to cultural and creative production, new forms of financial sustainability have developed in recent years. For instance, since some new practices of cultural and creative production consist of a myriad, often networked bottom-up initiatives, grassroots communities have been providing not only new ideas and content but also various forms of material and financial support and funding.

Public finance for CCS

The role of public expenditure in supporting CCS

Public expenditure on culture has evolved from direct grants and subsidies, although these remain important, to indirect funding instruments to stimulate cultural production and consumption. Public support to CCS could be in the form of direct support through granting certain activities without the need for reimbursement, indirect funding through tax reliefs, leveraging private finance, for instance through public loan guarantees, or matching funds to promote a synergy between public subsidies and private investments.

Direct funding: Bid-based grants

Direct funding to artists and cultural organisations has traditionally been the most prominent form of government investment in cultural sectors. Here, grants are issued to individuals or organisations either as ongoing revenue payments or to conduct a specific activity without the need for any form of reimbursement. This type of policy can be seen as a direct response to market failure approaches to arts and cultural sectors, whereby governments are motivated to intervene in promoting cultural activity which may not be financially sustainable if left solely to market forces. There are many different motivating factors which can influence the allocation of grant funding to cultural activities. Grant funding may be allocated to sectors or activities which have a significant social impact or are seen as strategically important to national culture. For example, grant funding can be used as a means to maintain cultural practices which form part of a county or region's cultural heritage, but which might be witnessing a decline in engagement from local communities. Moreover, grant funding is often used to increase engagement in culture by underrepresented groups, either as audiences or in the production of cultural assets. Consequently, grant funding for arts and culture can incorporate multiple policy objectives, and is often part of a government's broader strategic objectives.

Public funding for cultural projects can directly target the subsidy or grant to the organisation that will be responsible to develop the idea or alternatively, organise public bidding where individuals or associations, foundations or any other form of cultural partnership compete to win the grant. The allocation of money responds to the interest and merit of the proposal. This may happen at the local, national or supranational level. The imbalance towards the latter, competitive way of providing funds for cultural projects has accompanied processes of privatisation and public debt reduction since the 70s. Two models can be singled out (at least in Europe) with respect to the way culture is funded: on the one hand, cultural projects are funded according to the assessment of expert committees that decide the allocation of cultural spending (arm's length principle); on the other, criteria are set directly by the public authority, such as the Ministry of Culture.

Given the reduction in direct grants, many organisations have opted for alternative forms of funding (Parker, Ray and Harrop, 2001[23])**.** Participation in competitive bidding requires practice and skills. Certain organisations have been routinely incorporating their participation in calls for funding in their financing strategies. Depending on the dimension (i.e., number of employees, revenues, etc.), they might even exclusively or partially devote permanent staff to fundraising. Both in terms of available budget and expertise, however, not all organisations are in the same position to compete on these grounds. In a similar vein, fund providers might also be more interested in currently fashionable, attractive projects than in others delivering, more subtle, long-term benefits.

Public funding to CCS does not come from Ministries of Culture exclusively. In some countries, there is a vast range of different Ministries that concur with the Ministry of Culture in supporting CCS. In France, for instance, in 2021, the amount of expenditure on culture by other ministries is estimated at EUR 4.4 billion. Around 60% of this comes from the Ministry of Education, with the remainder coming from a wide range of ministries including the Ministry for Higher Education, Research and Innovation, the Ministry for Europe and Foreign Affairs, the Ministry of Economy and Finance, the Ministry for Agriculture and Food and the Ministry of Justice. Overall, the combined public expenditure on culture from other Ministries slightly exceeded that of the Ministry of Culture itself every year since 2017 (Ministère de la Culture, 2021[24]).

The involvement of ministries other than culture in cultural expenditure is often motivated by the economic and social impacts of CCS, whose relevance goes beyond the mere cultural sphere. For instance, the Czech Ministry of Finance (in cooperation with the Ministry of Culture) alongside Arts Council Norway and the Icelandic Centre for Research has issued an open call through the EEA Grants 2014-21 for project funding for an equivalent of EUR 3 million addressing the core of cultural and creative industries and the creative economy, provided that the proposals ensure a contribution to sustainable and inclusive growth. The national export strategies for CCS also typically entail a direct collaboration between different Ministries: for instance, in the case of Sweden, together with the Ministry of Culture, the Ministries of Foreign Affairs and of Enterprise and Innovation are involved.

In Europe, additional funding is provided from supra-national level. Funding is available through specific programmes with a CCS focus such as Creative Europe or the Culture, Creativity and Inclusive Society cluster of the Horizon Europe programme and the call for the new KIC on Cultural and Creative Industries. In addition, many different lines of funding for CCS-related projects may be found in different programmes as well as in the cohesion policy funds depending on the local composition of the Smart Specialisation Strategies. The new flagship project of the New European Bauhaus, the budget allocated to the new KIC, as well as the increased budget of Creative Europe and the newly launched culture-focused cluster in the Horizon Europe programme show how EU public spending on CCS is substantially increasing in 2021-27 with respect to the previous programming period.

Indirect funding: tax expenditures and voucher schemes

Alongside direct funding of arts and culture, many governments provide indirect funding to CCS through tax incentives. This type of support can still be considered "government expenditure", as it represents a loss in tax revenue to the government. However, rather than direct grant-based funding, which seeks primarily to address market failure through subsidising private revenues, the purpose of tax incentives is to encourage actors other than the State, i.e. private firms, to invest more in particular sectors or activities than they might otherwise do (BOP Consulting, 2017[7]). The specific design of tax incentives for this sector is influenced by various factors, including cultural policy objectives, economic policy objectives, and external regulations (Cramb, 2018[25]).

Broadly speaking, tax incentives as a way of financing CCS generally come in three forms. Firstly, specific tax credits can be targeted toward specific sectors within CCS. Secondly, tax relief may be given for charitable donations to CCS organisations. Thirdly, tax credits may be used for wider policy goals, such as support to SMEs or innovation, which businesses from CCS can take advantage of.

Tax incentives for particular creative sectors have become an increasingly popular way of funding CCS at both the national and local levels. Tax incentives for creative sectors predominantly come in the form of either "shelters" (tax deductions) or "credits" (rebates), both of which encourage investment in cultural and creative goods and services by offering a lower tax rate to be paid on specific qualifying costs (Daubeuf et al., 2020[26]). Moreover, tax incentives can be used by the government to encourage inward investment in specific areas by making it cheaper for international CCS organisations to conduct activities in their country, and can be used to promote specific forms of cultural production. For example, in 2017, the Congress of Colombia introduced a zero-income tax for seven years for start-ups in CCS, alongside a range of other tax incentives to encourage inward investment in the country. According to the fDi Intelligence Service, Colombia saw a stark increase in foreign direct investment (FDI) projects in cultural and creative sectors the year after these incentives had been introduced, becoming the biggest recipient of FDI for CCS in Latin America in 2018 (fDi Intelligence, 2019[27]).

Tax incentives have been extensively used in funding the film and television industry. Research from Olsberg SPI (2019[28]) indicates that the number of tax incentives for the film and television industry has been steadily growing since 2017, with 97 different schemes now available globally. Moreover, it was found that the use of tax incentives had increased investment in the sector, benefiting employment and gross value added (GVA) and creating a return on investment for national governments.

Box 5.4. The Canadian Film or Video Production Tax Credit (CPTC) and Film or Video Production Services Tax Credit (PSTC)

Canada introduced the Film or Video Production Tax Credit (CPTC) and Film or Video Production Services Tax Credit (PSTC) in 1996 with the aim of supporting Canadian cultural production and to encourage foreign-based film producers to employ Canadian labour.

The CPTC is targeted towards Canadian content productions that are owned and controlled by Canadians. The CPTC offers eligible productions a fully refundable tax credit of up to 25% of qualifying labour costs, to a maximum of 60% of the eligible cost of production. The credit therefore can provide up to 15% of the total cost of production.

The PSTC is similar to the CPTC, but is targeted towards the employment of Canadians by foreign-owned corporations, and generally features non-Canadian copyright ownership. The PSTC is available at a rate of 16% of the qualified Canadian labour expenditure for production.

Ten years after the implementation of the CPTC, evaluation reports conclude that the introduction of the scheme positively contributed to Canadian domestic film and television production. Survey results show around half (48%) of recipients of the tax credit stating that their projects would not have been carried out at all in the absence of the credit, and a further 22% of recipients stating that their project would have been significantly reduced in scope.

The implementation of both the CPTC and PSTC has significantly contributed to Canada becoming a major actor in the global film and television market, with the sector now worth over CAD 9 billion. Over half of this value is attributed to companies using Canada as a filming location or using Canadian film and television production services. Moreover, whilst domestic production saw a small decline in 2019/20, in the light of the COVID-19 pandemic, foreign activity in the sector actually saw an increase of 8%.

Source: UNESCO (2016[29]), *The Canadian Audio-Visual Certification Office (CAVCO)*, https://en.unesco.org/creativity/policy-monitoring-platform/canadian-audio-visual; Canadian Heritage (2008[30]), *Summative Evaluation of the Canadian Film or Video Production Tax Credit (CPTC)*, Office of the Chief Audit and Evaluation Executive, Evaluation Services Directorate, https://publications.gc.ca/collections/collection_2016/pch/CH7-53-2008-eng.pdf; CMPA (2020[31]), *CMPA Profile 2020: Economic Report on the Screen-based Media Production Industry in Canada*, Canadian Media Producers Association in collaboration with the Department of Canadian Heritage, Telefilm Canada, the Association québécoise de la production médiatique (AQPM) and Nordicity.

A second way in which taxation policy can support the financing of CCS is through tax relief on charitable giving to arts and heritage organisations (see Box 5.5). For example, in 2014, Italy introduced the Art Bonus - a tax credit equal to 65% of charitable contributions that individuals or companies make in favour of public cultural heritage. Such measures incentivise private donations and can be seen to aid sponsorship and patronage of cultural and heritage sectors by large corporations.

Box 5.5. Examples of tax incentives for CCS philanthropy

- The **Italian Art Bonus** tax exemption measure incentivises private and corporate investment in cultural heritage preservation and cultural production. It exceeded EUR 500 million in donations since its introduction in 2014.
- **Flanders, Belgium** has had a fiscal instrument in place since 2015 that encourages donations of valuable works of art to the Flemish Government (and thus indirect donations to Flemish museums). This measure means that heirs can pay **inheritance tax** by donating works of art. The measure has existed at the federal level since 2003 and with the implementation of the sixth state reform since January 2015, falls under Flemish jurisdiction. In France and the United Kingdom, there is a similar system for paying inheritance taxes in full or in part with art.
- The **Dutch Kennel Act of 2012** contains several fiscal measures (extra tax benefits) to encourage donations to non-profit organisations. These tax benefits are further strengthened in the Competence Act when it comes to donations to non-profit cultural organisations.
- The **Japanese hometown tax** was introduced in 2008 to correct the imbalanced tax revenue between urban and rural areas. It provides tax deductions to people who donate money to a local government of their choice and for an activity of their choice, cultural activities being eligible. Under this system, people get a deduction in the residence tax they pay to the municipality in which they currently live and the income tax they pay to the national government. The hometown tax reached its highest revenue in 2020 increasing by 40% compared to 2019.
- **Hypothecated taxes** are taxes imposed on categories of goods and services “whose proceeds can only be spent on a designated and specific purpose – in this case, culture”. While the money raised through hypothecated taxes is paid either by the public or some element of the business community (depending on the specific tax), the setting and collection of the tax are undertaken by the state. This is the case for Los Angeles which operates a 1% transient occupancy tax (a tax on hotel rooms) which generates about USD 11 million per year for the Department of Cultural Affairs. Some European cities have implemented this system in the form of a percentage of the hotel tax.

Source: MIC/ALES (2022[32]), *Art Bonus*, https://artbonus.gov.it/ (accessed on 13 April 2022); BOP Consulting (2017[7]), *World Cities Culture Finance Report*, BOP Consulting, London; Nippon (2021[33]), “Japanese hometown tax system sees record-breaking donations in 2020”, https://www.nippon.com/en/japan-data/h01108/; OECD (2018[3]), *The value of culture and the creative industries in local development*, www.oecd.org/cfe/leed/venice-2018-conference-culture/documents/Culture-and-Local-Development-Venice.pdf.

Cultural and creative sectors can also receive financial support through tax incentives targeted towards broader policy objectives. Many governments across the world have developed tax incentive schemes to support SMEs and innovation, which CCS firms may be eligible to benefit from. As CCS are characterised by a high concentration of small and micro businesses, SME tax incentive schemes can be particularly helpful for many CCS businesses. However, access to financial support for innovation for firms from the cultural and creative sectors is mixed. Out of the 41 countries covered in the OECD compendium on research and development (R&D) tax incentives, only 23 countries included R&D in the arts and humanities as eligible expenditure (OECD, 2020[34]).

Alongside tax incentives, voucher schemes to promote innovation using CCS have been trialled in a number of countries such as the United Kingdom, Portugal, Slovakia, Belgium and Austria (Daubeuf et al., 2020[26]). These types of schemes most commonly offer credit to SMEs from either CCS or non-CCS sectors to spend on cultural and creative goods and services. The underlying logic of such schemes is that SMEs typically lack the financial resources to invest in innovation. By receiving vouchers to work with cultural and creative firms, SMEs can enhance their innovation capabilities, develop new relationships and improve their competitive position, whilst CCS firms benefit from new business opportunities and develop relationships and capabilities in other industry sectors (Bakhshi et al., 2013[35]). Consequently, voucher schemes offer both direct monetary benefit to the businesses who receive voucher scheme funding, and additionally promote innovation and strengthen inter-industry networks.

Box 5.6. Wallonia Creativity Vouchers

In 2014, the region of Wallonia, Belgium, introduced a pilot scheme offering “Creativity vouchers” to SMEs, as part of the Wallonia European Creative District project, co-funded by the Wallonia Region Government and the European Commission.

The voucher scheme offered SMEs from any industry sector EUR 6 000 to develop a creative innovation in collaboration with a business from the creative industries. The vouchers covered up to 80% of the expenses associated with the creative intervention, with the remaining 20% being financed by the recipient SME. The pilot held two open calls for applications in September 2014 and February 2015, with the selection process based on application questionnaires completed jointing by the SME and its creative partner. Ten projects were funded through this scheme, including sectors such as high-tech, food, health and construction.

“The Creativity Voucher demonstrated that irrespective of the sector of activity, it could be profitable to cooperate with a creative enterprise and that even the most technical sectors could benefit from it.”

Source: Wallonia Creative District (2015[36]), *Supporting Creative Industries: Conclusions of the Actions Taken by Wallonie Design as part of Wallonia European Creative District*; Daubeuf, C. et al. (2020[26]), “Enumerating the role of incentives in CCI production chains”, Cicerone Project, University of Amsterdam.

Another set of vouchers that has gained even more prominence with COVID-19 crisis is the one to help individuals, including groups experiencing a disadvantage, access cultural goods and services. For example, in France a national scheme, the "*pass culture*"' was launched in 2021. The value of this voucher is EUR 300 allocated exclusively to young people to be used for all cultural products over a 24-month period (OECD, 2021[37]).

Private finance for CCS

Self-finance through profit

Some cultural activities have more potential to generate income from the market than others. For example, a cultural association with paying membership receives membership contributions, while many cultural organisations such as museums, concert and festival producers can generate income from ticket sales, sponsoring or catering activities. The most obvious source of income is the sale of a physical product (“asset sale”), such as a book, a piece of clothing, a piece of furniture, or a painting. Income can also be generated by fees for use (“usage fee”), such as fees for cloakroom service, access to the Internet, or an annual fee for a streaming service of films or music.

The extent to which CCS can rely on the market for sustainable financing of activities depends on the specific characteristics of the sector and the product or service being offered (OECD, 2018[3]). There is an interplay of three factors: i) the size of the accessible market; ii) the fixed and variable costs for producing creative goods or content; and iii) the potential capacity to transcend time and space horizons (Baumol, 1965[38]; Caves, 2000[39]). This provides a typology for forms of cultural and creative production and their degree of "sustainable market dependence". For example, museums are limited in their accessible market as they generally require physical attendance, making them less able to only rely on self-generated income.

Equity and debt financing

Although own income and subsidies are often the most important sources of funding for CCS, they are not always enough to meet all financing needs. Sometimes interim funds must be borrowed from third parties to finance projects, investments or growth. In exchange for providing money, the financier may receive interest (debt financing) or be remunerated in the form of shares that they may sell (or choose to hold) over time (equity financing). This financier could be a traditional financial institution, a microcredit provider, a business angel, a venture capitalist, an individual (the so-called 'family, friends, fans and fools' - the 4Fs), or even the government.

CCS do not necessarily underperform in terms of profit or financial soundness when compared to other sectors (see Chapter 4). Yet there remains a gap between private finance suppliers and financial access for CCS companies given their particularities, with which many potential lenders or investors are unfamiliar. There are many characteristics of CCS that traditional lending institutions remain wary of. First, CCS are characterised by a high incidence of small and micro businesses, alongside a strong presence of individual entrepreneurs and freelance workers. Consequently, many of the problems in access finance encountered by SMEs, such as difficulties in obtaining guarantees/collateral to be solvent, are particularly acute in CCS. Second, CCS produce goods which are inherently creative or symbolic in nature. As such, assessments of value are often subjective and face high levels of uncertainty. Third, the project-based nature of many creative ventures also limits their capacity to access private finance. Consequently, the high levels of uncertainty and perceived risks of investment in CCS are key barriers for private investors seeking quick or low-risk returns on investment.

Furthermore, as CCS rely heavily on intangible assets it can be difficult to determine an objective market value of a firm's assets. CCS companies are often characterised by having few or even no tangible assets, relying exclusively on the value of their intellectual property and creative skills. Intellectual property (IP) rights are important assets because they can increase a company's asset value. IP law exists to protect the creators, covering areas of copyright, trademark law, and patents. Understanding and valuing these assets can help a company to negotiate access to credit or other forms of financing and help negotiate better terms for that financing (OMC, 2016[18]). Lately, IP has been used as collateral in CCS although it cannot be considered a generalised practice. Despite the emergence of a new economy of intangible property, there is still a clash between the laws of secured finance and IP law, which makes IP ill-suited for use as collateral (Owens-Richards, 2016[40]).

This incapacity to provide (tangible) collateral to guarantee the risk of loans, has important implications for CCS firms' ability to successfully apply for finance through formal channels. The European Commission's 2013 survey into financing of CCS found that business model issues are a key barrier to finance for many CCS firms "since often, but not always, CCS business models do not match with the traditional financial products offered by general banks as there is no underlying collateral" (EC, 2013[41]).

Given the difficulties that many cultural and creative businesses face in accessing equity and debt finance, governments are increasingly stepping in to assume the role of the private sector in financing CCS through debt and equity finance. For example, the United Kingdom's Creative England investment programme offers start-up loans and scale up capital exclusively to business in the creative industries. Assessment of their investment portfolio from 2012-17 showed that for every GBP 1 of public sector investment, GBP 4 of external capital had been mobilised, the majority from private commercial sources (The Good Economy, 2018[42]).

Moreover, there is a growing trend in social impact investing and venture philanthropy which explicitly seeks investments which generate a high social return, alongside a financial one. The main objective of impact investing is to secure returns on investment whilst also having a positive impact on society by using traditional investing models to financially support businesses with social goals. Research from Rockefeller Philanthropy Advisors (RPA) identified 107 social impact investment funds, representing an estimated USD 60 billion, that have been active in the creative economy (although their definition of creative economy also includes sectors such as social and sustainable food) (Upstart Co-Lab, 2018[43]).

Venture philanthropy is a form of financing where both financial and non-financial support are combined to create stronger "investee" organisations so that they can increase their social impact (OECD, 2018[3]). This approach can cover the entire spectrum of financial instruments (grants, debts, equity...) and non-financial instruments (advice, coaching and business mentoring, access to networks, financial management, fundraising and income strategy, management). Whereas government grants and private philanthropy typically focus on the short-term financing of specific projects, social impact investing and venture philanthropy generally focus more on long-term objectives and supporting the development of capabilities at the organisational level.

Box 5.7. The Motae Fund for private-public VC funding of CCS in Korea

In 2005, the Korean government launched a large-scale state venture capital investment fund known as The Motae Fund ("mother fund" in Korean). The Motae Fund focuses on supporting SMEs and start-ups in a number of specific sectors, including biotech, healthcare, information and communication technology (ICT), and film and culture. The film and culture funds work by offering matched funding to private investors, creating a hybrid private-public capital investment. Typically, Motae provides 50-60% of the investment, with private investors (usually 3 or 4) contributing 40% and the remaining 1-10% being provided by the Venture Capital company. The fund invests at both project and firm level, with some funds for example investing in specific films and others in companies such as video games developers or K-pop talent agencies. Whereas tax incentives for investment in CCS lower the cost of investment, the public-private capital investment model of Motae is designed instead to minimise risk, by taking on part of the investment themselves.

The Motae film and cultural funds raised over USD 1.6 billion from 2006 to 2016 and delivered a significant "crowding-in" effect, encouraging large amounts of VC investment into CCS projects and businesses. As part of wider CCS policy measures, it contributed to exceptional growth rates for Korean creative sectors which saw, for example, the film industry grow by 890%, the broadcasting industry by 625%, the music industry by 1 605% and the games industry by 1 585% between 1999 and 2018.

Source: Lee, H. (2021[44]), "Supporting the cultural industries using venture capital: A policy experiment from South Korea", http://dx.doi.org/10.1080/09548963.2021.1926931.

Philanthropy and patronage

There are many ways in which individuals can offer financial support to CCS organisations through charitable giving (OECD, 2018[3]). Individuals can give through donations or patronage and organisations can give through donations, or sponsorship deals. With donations, an individual or an organisation gives money freely without expectation of any tangible return. Donations are often made to support a specific project or programme of work. When donations are made regularly and not intended to support a particular project, this is known as patronage. With patronage, an individual artist or cultural organisation receives money from a patron - someone who donates money to support the activities of the beneficiaries. Here a patron pays the artist not to get a work of art in return, but to provide them with livelihood, to cover the costs of material, of an exhibition or execution of an artwork. The platform Patreon, launched in 2013 is a good example of this type of arrangement, where givers can “subscribe” a monthly donation to an individual or organisation to support their general upkeep, as opposed to a specific piece of work.

Alongside donations and patronage, many organisations engage in corporate philanthropy, through offering financial or in-kind support to CCS businesses. This support can be in the form of one-off donations, or in the form of patronage. Corporate patronage differs from sponsorship deals, as its aim is purely philanthropic. Unlike sponsoring, the company does not expect any "direct consideration" or impact on its trading activities, although the positive image benefit is a sought-after indirect impact. In addition to the corporate philanthropic funds of a single company, there are also collective corporate philanthropic funds, in which the resources of various companies are combined to support the same social mission. For example, since 2003, in Belgium the Wallonia organisation Promethea manages six such collective company sponsorship funds (Promethea, 2022[45]). One of these corporate patronage funds is Akcess, a fund that specifically subsidises initiatives "that promote, encourage and support the discovery and enjoyment of culture.”

Donations and cultural patronage are opportunities for corporations and individuals to support arts and culture. There are many motivations for such charitable giving: philanthropy, private interest to promote a brand or a name, or as a strategy to reduce tax payments, among others. Rather than being treated as separate practices from the core activities of the business, sponsorship and patronage are increasingly considered as a strategic investment for many companies. Research has shown that corporate sponsorship of cultural activities can contribute to a company’s competitive advantage by building local capabilities and gaining increased exposure to new concepts and ideas (Comunian, 2008[46]).

Matchmaking between actors from the cultural sector and the business community is very important in corporate patronage (and in sponsoring). In some cases, governments have created or supported Cultural Matching Funds to stimulate matching in a transparent way. Established by the Ministry of Culture, Community and Youth (MCCY), the Cultural Matching Fund (CMF) in Singapore provides dollar-for-dollar matching grants for private cash donations to registered charities in the arts and heritage sector (Ministry of Culture, Community, and Youth, 2022[47]). The CMF aims to encourage giving to the arts and heritage sector to create a more sustainable arts and heritage scene. Similarly, the Australian Government established Creative Partnerships Australia, an agency with the purpose of encouraging and facilitating arts philanthropy in Australia. Their matched funding programmes help independent artists and small to medium arts organisations increase their fundraising, secure new donors and partnerships, and strengthen their networks (Creative Partnerships Australia, 2022[48]).

In some countries, national lotteries play a large role in philanthropic support to arts and culture. For example, in Belgium in 2014 almost EUR 150 million of the profits went directly to humanitarian, social, sporting, cultural or scientific projects, of which EUR 10.5 million was spent on cultural projects. Every week in 2017, GBP 30 million of the National Lottery went towards arts and culture, local communities, heritage and sports across the United Kingdom. However, some reviews have noted that arts lottery funds are not fundamentally different from grant-in-aid funding – those provided to maintain the core national cultural infrastructure.

In many OECD countries, the share of individual and philanthropy funding of cultural organisations tends to increase compared to decreasing direct state support (Antoshyna and Bondarenko, 2020[49]). Evidence from the 2014 Survey on the European Cultural Sponsorship of 13 European countries suggests that sponsorship revenues in the financing mix of cultural organisations represented on average around EUR 166.6 million per country (Causales, 2014[50]). The 251 cultural institutions participating in the survey evaluated the quality of sponsorship management in European cultural institutions and the potential future of a European cultural sponsorship market. According to this survey, 74% of cultural institutions acknowledged the increasing importance of sponsorship.

More can be done to raise the awareness of potential sponsors about sponsorship benefits and about the importance of a stable regulatory framework. A survey of large Italian firms found that just under 50% of 345 respondents had used sponsorship arrangements. Of the companies who had not engaged in sponsorships, around half stated a lack of knowledge of the potential fiscal benefits of such arrangements. Other reasons for a lack of sponsorship engagement included questioning of sponsorship as an effective tool for communication, being too expensive in view of its expected benefits, or perception of cultural suppliers as unreliable partners. In all countries and projects, a stable regulatory framework that guarantees and safeguards the conditions of the collaboration in the medium or long run is also needed. Contractual arrangements can be considered the main vehicle for mutually satisfactory cultural sponsorships (Severino, 2014[51]).

Patronage and sophisticated forms of sponsorship are not new, but what has changed since the 20th century is the growing support of governments in orchestrating these privately funded or co-funded cultural patronages or sponsorships. In some cases, this could lead to public-private partnerships based on ad hoc contracts or agreements and in others, this could facilitate the creation of intermediate bodies such as arts councils to distribute private donations in a way which aligns with public objectives (Frey, 2019[2]).

Crowdfunding and the platform economy

Crowdfunding is understood as "an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people (i.e. a crowd)" (Ordanini et al., 2011[52]). Crowdfunding has recently emerged as an alternative and well-used source to fundraise private investment for cultural and creative projects. Crowdfunding offers enhanced opportunity to access finance from a range of individuals and represents an alternative to minimise or even eradicate the number of intermediaries between creation and consumption of cultural products.

There are four main types of crowdfunding: equity-based, lending-based, reward-based, and donation-based (Hossain and Oparaocha, 2017[53]). In equity-based models, individual investors offer money in return for an equity share in the company or project being funded. In lending-based crowdfunding, funds are provided as a loan and so this type of funding is often referred to as "peer-to-peer" or P2P lending. In both cases, investors are motivated to finance projects by the prospect of a fiscal benefit or return on investment. Reward-based and donation-based models are both forms of non-financial crowdfunding where money is given either in exchange for some kind of non-financial "reward", such as small gifts of the first manufactured products, or money is donated by individuals for purely philanthropic means. As such, equity-based crowdfunding can be seen as an alternative to venture capital funding, lending-based crowdfunding as an alternative to traditional bank debt, donation-based crowdfunding as an extension of patronage models and reward-based crowdfunding as a hybrid of patronage and sales. Whereas donation-based and reward-based crowdfunding are particularly suitable for financing specific cultural projects, lending-based and equity-based crowdfunding models are much more focused on organisational financing (OECD, 2018[3]).

Crowdfunding may influence the rate of innovation by increasing the total amount of funding available to innovative new ventures. At the same time, it may influence the direction of innovation by changing the way in which capital is allocated to new ventures (Agrawal, Catalini and Goldfarb, 2014[54]). Further than resource-pooling or social-networking strategies, crowdfunding has unique elements: first, the return of the investment could be financial but also intangible for instance, status or social esteem. Second, the decision-making process of potential contributors with respect to which innovative ideas to finance is mostly limited to making a selection among available alternatives (Ordanini et al., 2011[52]).

Crowdfunding has several characteristics that make it an interesting tool for financing CCS. First, the benefits of setting up a crowdfunding campaign go beyond the mere collection of money. It can increase the involvement of stakeholders, build a community, or be used to communicate a vision to the public. These are important factors for cultural actors to increase their support and impact on society. Second, a large part of the financing needs in the cultural sector is related to specific projects and microfinance (less than EUR 25 000). It is often difficult to meet these financing needs through traditional forms of bank financing, whereas crowdfunding campaigns can set smaller fundraising goals. Third, the CCS is composed of very different actors. Some are heavily dependent on subsidies, while others have more opportunities to generate market revenues. Some CCS institutions are clearly anchored locally, while other actors are active in international value chains (e.g. film, music). The different forms of crowdfunding offer opportunities for the financing needs of various actors. And finally, crowdfunding has an important signal value, in demonstrating the market potential of specific products and projects to traditional investors and financiers. Successful campaigns can be seen as an indicator of support and thus facilitates further co-financing by traditional financiers.

Next to the emergence of new fundraising alternatives is the generalisation of the use of ICT. Technologies facilitate the outreach and the dissemination of potential projects to be supported. In the case of CCS, digitisation has played a key role in opening new possibilities, from rethinking the traditional value chain to the opening of new channels for financing and co-production of cultural projects (Shneor, Zhao and Flåten, 2020[55]). Crowdfunding provides access to financial resources to artists, creators and new CCS businesses that might not otherwise occur, especially in early-stage financing of their careers (Agrawal, Catalini and Goldfarb, 2015[56]). Moreover, artists and creators with a mainly local focus of activity might seek in crowdfunding platforms the credibility and recognition of professionalism that otherwise could be in doubt (Dalla Chiesa and Dekker, 2021[57]).

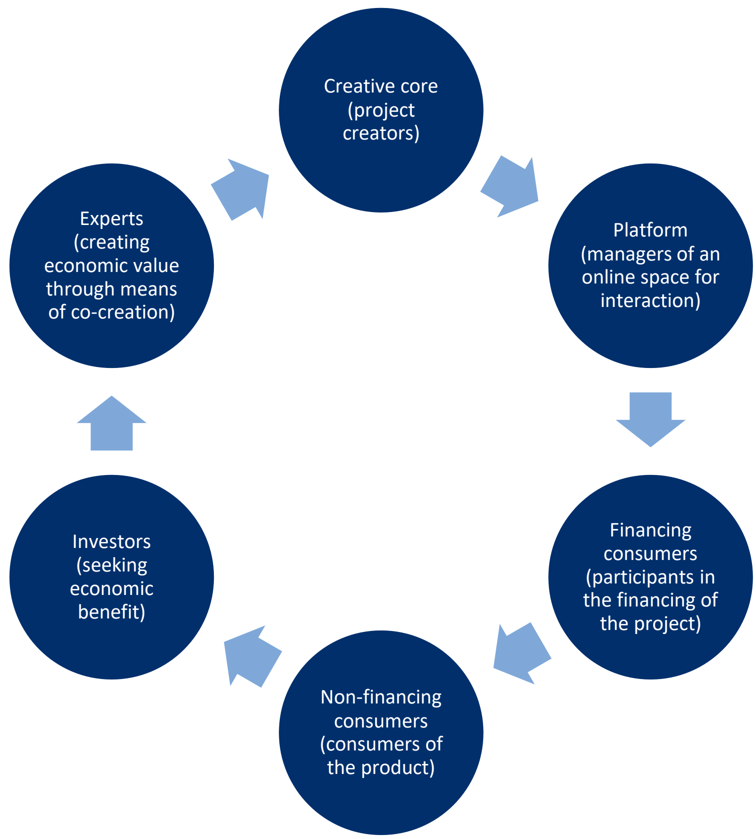
There are three primary actors in CCS crowdfunding: creators, funders and platforms. They respond to different incentives such as lower cost of capital or more visibility (for the creators); access to investment opportunities, early access to new products, being part of the community, philanthropy and certification of contributions (for funders), profit and media attention (for platforms). However, crowdfunding might also generate unintended consequences such as the disclosure of innovative ideas lacking proper intellectual property protection to potential competitors and imitators, difficulties in the collection and management of a large number of small-sized non-professional investments (for creators), creator incompetence, fraud and high project risk (for funders) (Agrawal, Catalini and Goldfarb, 2014[54]).

Crowdfunding in CCS requires the participation and engagement of several actors. Quero and Ventura identify six types of actors in CCS crowdfunding arrangements (Figure 5.16). Each of these actors adds value to the overall project being funded through co-ideation, co-valuation of ideas, co-design, co-test, co-launch, co-investment or co-consumption.

Crowdfunding typically relies on personal relationships (Agrawal, Catalini and Goldfarb, 2014[54])**.** Path dependency strongly influences the engagement and success of CCS projects in crowdfunding throughout a variety of digital platforms. Crowdfunded CCS projects explore new avenues of value creation and business models in the cultural and creative sector, whose reception by potential investors depends on a number of factors. Moreover, although any CCS project might be potentially eligible for fundraising from the crowd, certain personality traits of the project creator such as openness, sociability or extraversion have been shown to enhance the probability of engagement in crowdfunding attempts (Davidson and Poor, 2014[58]).

The availability of data on crowdfunding is limited. One of the underlying problems in CCS crowdfunding analysis is the lack of harmonised data and definitions. Several studies on CCS crowdfunding have relied on specific platform data or ad hoc primary research. However, a study on the extent of crowdfunding projects in CCS based on 75 000 campaigns launched since 2013 across different CCS subsectors and EU Member States, reveals that around 50% of the campaigns were successful in reaching their goal, for a total amount of around EUR 247 million (EC, De Voldere and Zeqo, 2017[59]). However, such an amount covered only 7% of the needs pledged in these campaigns. The research also makes an important point: Europe is home to about 600 crowdfunding platforms. However, almost half of the CCS campaigns (47%) initiated by a European project creator were hosted on global US-based platforms. The same source indicates that crowdfunding in CCS is mostly reward-based or donation-based, signalling a relative lack of professional or strategic investors.

Figure 5.16. The key actors in crowdfunding models



Source: Quero, M.J. and R. Ventura (2015[60]), "The role of balanced centricity in the Spanish creative industries adopting a crowd-funding organisational model", http://dx.doi.org/10.1108/JSTP-09-2013-0182.

Crowdfunding is not going to substitute for public funding. Presumably, it will coexist with the latter as an inclusive, bottom-up form of philanthropy (Weigmann, 2013[61]). In CCS, crowdfunding is increasingly seen as a potential source of alternative funding but to date, it makes a modest contribution to the financial ecosystem of CCS (EC, De Voldere and Zeqo, 2017[59]; Shneor, Zhao and Flåten, 2020[55]).

Box 5.8. Examples of crowdfunding platforms and campaigns

There is a wide range of crowdfunding platforms available, some of which are specifically aimed towards supporting CCS projects, and others which are more general in scope. Moreover, many national governments and local administrations have begun to develop their own crowdfunding platforms to help finance and support CCS projects.

- *KickStarter* is a well-known platform for creative projects based in the United States since 2009. It has since raised over USD 600 million for more than 40 000 creative projects. The type of financing is limited to donations and sponsorship. 15 categories are eligible: Art, Comedy, Comics, Dance, Design, Fashion, Food, Film & Video, Games, Journalism, Music, Photography, Technology, Theatre, or Writing & Publishing.
- *Crowdfunding.gent* is the crowdfunding platform of the city of Ghent, which started in 2015 and is intended for both profit and non-profit organisations (including individuals and non-profit organisations) that are looking for financing for their projects or campaigns. These can only be financially supported by pure donation or donation in exchange for a symbolic reward. Crowdfunding.gent runs on the online do-good platform of the foundation 1% Club, which charges an honorarium of 7% when the crowdfunding campaign reaches its goal; if this is not the case, the foundation 1% Club charges a fee of 2%.
- The "*Un Passo per San Luca"* is an example of a local civic crowdfunding campaign, which contributed, among many other initiatives, to the recognition of the Porticoes of Bologna as a UNESCO World Heritage Site in 2021. This recognition builds on participatory governance structure that has been put forth by the Municipality of Bologna, Italy, to manage, preserve, and devise urban policies for the porticoes throughout the years. The "*Un Passo per San Luca"* civic crowdfunding campaign was one of the many initiatives that contributed to raise awareness on the porticoes, while also representing a successful crowdfunding campaign involving both public and private actors and targeting the preservation and restoration of cultural heritage in Italy. The campaign was carried out between October 2013 and October 2014 with the support of a local crowdfunding platform that helped set up a DYI website and manage the campaign. The campaign raised EUR 330 000 from over 7 000 supporters and helped finance renovation works on the San Luca Porticoes. The Municipality of Bologna contributed to the campaign with EUR 100 000 that were collected through Bologna's own tourist tax, as well as through patronage and sponsorship initiatives.
- The Dutch crowdfunding platform *Voordekunst* has been operational since 2011 with the support of the city of Amsterdam and focuses on creative projects. The available options for fund providers are only donations or sponsoring in exchange for rewards in kind. *Voordekunst* is transparent and democratic; it stimulates entrepreneurship and strengthens social support for the art sector.
- *Kisskissbankbank* is a European and international platform launched in response to the 2008 financial crisis. KissKissBankBank is a crowdfunding platform for projects by filmmakers, musicians, designers, developers, illustrators, explorers, writers, and journalists worldwide. Donors from 174 different countries have funded projects from 38 different countries.
- *Goteo in Barcelona* is a platform for civic crowdfunding founded by Platoniq, a Catalan organisation specialising in digital cultural production and civic participation projects. Goteo helps citizen initiatives as well as social, cultural and technological projects that produce open-source results and community benefits by providing crowdfunding and crowdsourcing support. Since its launch in 2011, Goteo's crowdfunding campaigns have mobilised more than

90 000 people, collecting over EUR 4.5 million and successfully funding initiatives in more than 70% of the cases. Through the projects it enables, Goteo promotes transparency, open-source information, knowledge exchange and cooperation among citizen initiatives and public authorities.

- *The Australian Cultural Fund (ACF)* is a fundraising platform for Australian artists. It is managed by Creative Partnerships Australia, a not-for-profit organisation supported by the Australian Government through the Department of Infrastructure, Transport, Regional Development and Communications. The ACF was established by the Australian Government in 2003 to encourage donations to the arts. Unlike all-or-nothing fundraising platforms, all donations are still taken into account for ACF artists if their initial fundraising goal is not met. Donations over AUD 2 are tax-deductible. In 2020/21 the ACF supported fundraising campaigns of 490 independent artists, and arts organisations. Together they generated 9 811 donations from 8 788 arts lovers to invest more than AUD 4.4 million into arts and cultural projects.

Source: Kickstarter (2021[62]), www.kickstarter.com/ (accessed on 1 November 2021); Crowdfunding.gent (2021[63]), www.crowdfunding.gent (accessed on 1 November 2021); Voordekunst (2021[64]), www.voordekunst.nl (accessed on 1 November 2021); KissKissBankBank (2021[65]), www.kisskissbankbank.com (accessed on 1 November 2021); OECD (2018[66]), "Culture and Local Development: Background report", https://www.oecd.org/cfe/leed/culture.htm; Goteo (2022[67]), https://en.goteo.org/ (accessed on 10 May 2022); Creative Partnerships Australia (2022[48]), www.creativepartnerships.gov.au/ (accessed on 3 March 2022); OECD (forthcoming[68]), *Cultural and creative sectors and local development: the case of Emilia-Romagna.*

Frameworks and alliances between public, private and third sector actors to finance arts, culture and creativity

Partnerships and alliances are at the core of the emergence of new financial ecosystems for culture. Public-private, public-public and public-civic partnerships are increasingly found in many cultural interventions. Since creative and cultural ecosystems involve a multiplicity of stakeholders, partnerships between local governments, creatives, and other major contributors are key to enabling a thriving creative ecosystem by aligning mutual interests and priorities (UNESCO/World Bank, 2021[69]). In this vein, governments are transforming their forms of intervention to support greater interaction between CCS and private funders. At the same time, cultural organisations are offering a wide array of opportunities for private investment in exchange for economic or social returns. This is contributing to broadening the scope of public-private partnerships meant to enhance the financial sustainability of arts and culture. Thus, new avenues of collaboration are opening up in the form of alliances and agreements across a wide range of public sector, private sector and third sector actors.

One of the innovations in public sector engagement in CCS support is its role as a third-party guarantee. For example, in 2016, the European Commission set up the Cultural and Creative Sectors Guarantee Facility (CCS GF) which covers up to 70% of financial intermediaries' potential loss on individual loans to CCS projects and up to 25% of investors overall CCS loan portfolio. The EU guarantee is provided free of charge to selected financial intermediaries and can be accessed by CCS SMEs or small public enterprises in EU member states. As of 2019, EUR 424.4 million of debt financing had been made available by the scheme, supporting projects worth over EUR 1.08 billion in total (EC, 2021[70]).

Some governments are also harnessing the power of crowdfunding to encourage private sector investment and individual giving to CCS. For example, funding from the Scottish Government and the national lottery is being invested through Creative Scotland. The latter has partnered with the private crowdfunding platform Crowdfunder, offering match funding to creative projects seeking financial resources through the platform. So far, projects in Scotland have raised over GBP 200 000 for projects in live and recorded music, participatory arts, fashion and textiles and others (OECD, forthcoming[71]).

However, partnership models are currently challenged by new business models blending non-profit and for-profit rationales. Cultural organisations are increasingly relying on a wider variety of business models and funding sources. Consequently, the traditional distinction between non-profit, publicly-funded or commercial producers is being gradually eroded by many organisations in the sector as they strive to keep afloat. Hybridisation in cultural production and its consequences respond to rationales that range from typical commercial interests to voluntary cultural service to the community (Gielen and Lijster, 2016[72]). Thus, tensions can arise in the values and priorities of different stakeholders in CCS organisations and partnerships. The contradiction between drivers of, for instance, public institutions guided by societal principles and private organisations interested in economic profit is inevitable unless their shared objectives are compatible with their own interests. As such, many authors advocate for the benefits of the inclusion of non-governmental organisation (NGO) principles in these partnerships as they are driven by mission rather than profit (Bartoletti and Faccioli, 2020[73]; Copic and Dragicevic Sesic, 2018[74]).

The impact of COVID-19 on the financing of CCS

CCS have been some of the most affected sectors by the COVID-19 pandemic. As discussed in the previous chapters, the venue-based sectors (such as museums, performing arts, live music, festivals, cinema, etc.) were among the hardest hit by social distancing measures. The abrupt drop in revenues has put their financial sustainability at risk and has resulted in reduced wage earnings and lay-offs with repercussions for the value chain of their suppliers, from creative and non-creative sectors alike.

In response, governments across the globe have offered a variety of relief packages targeted to CCS (OECD, 2020[75]). These include grants and subsidies for cultural sectors, grants and subsidies for individual artists, compensation of losses, loan provision and guarantees and investment incentives (Box 5.9). Funding directed specifically to cultural and creative sectors has been included in many countries emergency aid packages, with some governments allocating a budget for the whole cultural sector, and others specifying specific amounts to be assigned to sub-sectors, such as music, cinema, museums, and publishing industries. In addition, several countries have put in place a range of measures to compensate for the actual or potential losses that CCS firms incur due to COVID-19 lockdowns. These are reimbursement schemes that specifically benefit cultural and creative sectors and individuals who have lost income due to cancelled activity (EC, 2020[76]).

Regions and cities have also allocated specific budgets to their cultural sectors. For example, the Brussels-Capital Region has instituted an emergency fund of EUR 8.4 million targeted specifically towards the cultural sector. It also allocated a fund of EUR 5 million to provide EUR 1 500 to individual cultural and creative workers who cannot benefit from other forms of support. The city of Seoul (Korea) has directed support specifically towards artists and workers in the CCS through the creation of three different Emergency Support for the Arts funds. They target artists, arts companies, planners, art educators and freelancers. In such a way, the city provided economic relief to CCS workers, overcoming the diverse and non-traditional nature of employment in such sectors. Regional support has also been directed to certain hard-hit sectors. For example, the Department of Culture of Catalonia (Spain) advanced almost EUR 4 million for book purchases by libraries to also help minimise the impact of COVID-19 on the book sector (OECD, 2020[75]).

These emergency support packages have been a lifeline for many cultural organisations and creative businesses during the pandemic. Evidence from the United Kingdom suggests that over 85% of UK creative businesses had received some form of pandemic-related government support in 2020, with around 70% of museums, libraries and galleries and around 30% of music, visual and performing arts organisations receiving specific “cultural recovery” funding (Siepel et al., 2021[77]). However, of the firms surveyed, a significant number indicated a need for further support and a lack of financial ability to invest in key business activities themselves. Similarly, a survey of artists and creative organisations in the United States by America for the Arts found that around 70% of respondents who had suffered a loss of income as a result of the pandemic were planning to apply for government support to compensate for their losses (Americans for the Arts, 2021[78]).

Box 5.9. Overview of COVID-19 related public funding measures impacting CCS

During 2020 and 2021, governments across the world implemented a range of policy initiatives to support CCS hit by the global pandemic. The table below shows the type of public funding offered by national governments to CCS as of September 2020. While a number of other types of support have been offered (e.g. employment support, deferral of payments and easing administrative procedures, etc.) and a number of regional administrations within these countries have also provided additional funding in these areas, the table demonstrates the range and scale of public investment from national governments around the world.

Table 5.2. Public funding measures to support CCS in response to COVID-19, as of September 2020

Country	Grants and subsidies for cultural sectors	Grants and subsidies for individual artists	Compensation of losses	Loan provision and guarantee	Investment incentives
Australia	x	x	x	x	
Austria	x	x	x		
Belgium					x
Canada	x			x	
Chile	x			x	
China					
Colombia	x	x		x	
Czech Republic	x	x	x		
Denmark	x	x	x		
Estonia	x	x	x		
Finland	x	x	x		
France	x	x	x		x
Germany		x	x	x	
Greece	x				
Hungary		x			
Ireland	x	x	x		
Italy	x	x	x	x	
Japan	x	x		x	
Korea	x	x	x	x	
Latvia	x		x	x	
Lithuania	x	x			
Luxembourg	x	x	x		
Mexico		x			
Netherlands	x	x	x	x	

New Zealand	x	x		x	x
Norway		x			
Poland		x			
Portugal	x		x		x
Slovak Republic		x			
Spain	x			x	
Sweden	x			x	
Switzerland	x	x	x	x	
United Kingdom	x	x		x	
United States	x	x		x	

Source: OECD (2020[75]), "Culture shock: COVID-19 and the cultural and creative sectors", https://read.oecd-ilibrary.org/view/?ref=135_135961-nenh9f2w7a&title=Culture-shock-COVID-19-and-the-cultural-and-creative-sectors.

Yet there remains a significant deficit in the amount of support offered to creative sectors in view of the size of the accrued losses. A review of COVID-19 support for CCS in Europe found that when comparing the overall budget spent on CCS in the context of the COVID-19 crisis to the expected revenue loss for firms in these sectors, a huge gap emerges (IDEA Consult et al., 2021[79]). Moreover, they concluded that this gap was likely to remain substantial even if further programmes were to be launched.

The financing landscape for CCS in the post-COVID recovery period remains uncertain. While the 2008 global financial crisis was a catalyst for a reduction in government support for CCS, it remains to be seen to what extent an analogous situation will emerge in the aftermath of the global pandemic. In the light of a growing acknowledgement of the importance of CCS for regional and national growth, many governments have labelled CCS as strategic growth sectors in their recovery plans. However, this does not necessarily mean more public spending on arts and culture and could in fact mark a further shift towards more market-oriented sustainability models.

Policy perspectives

Consider culture as an investment, not a cost

The consideration of CCS social impact, beyond its profitability, provides a rationale for public support. A lack of profitability is intrinsic to many cultural projects, at least in certain phases of creation. In addition, market results do not consider the positive externalities that culture and CCS can create, over and above pure economic value. Aside from job creation and GDP contribution, CCS affect individual and community well-being and brings numerous other benefits.

Ensure a stable regulatory framework

The increasing participation of new actors in the support and financing of culture and cultural organisations requires a stable regulatory framework to strengthen their commitment. Favourable regulation has become one of the most compelling and stimulating catalysers to enhance private participation in arts and culture funding. As such, a stable regulatory framework for financing CCS, which encompasses a mix of direct and indirect funding, alongside innovative strategies for supporting private sector investment, is needed.

Besides ensuring the necessary stability for alternative and innovative models to finance cultural projects, governments can proactively assume the risk of financing uncertain phases in the value chain mainly associated with the creation stage. Governments can be leading agents in facilitating the kind of innovative breakthroughs that allow companies, and economies, to grow, not merely by creating the conditions that enable innovation. Governments can proactively focus upon a new high growth area before the potential is understood by the business community (from the internet to nanotechnology), funding the most uncertain phase of the research that the private sector is too risk-averse to engage in, seeking and commissioning further developments, and often even overseeing the commercialisation process (Mazzucato, 2013[80]).

Recognise the diversity of funding needs within the sector

CCS do not fit well in conventional industrial definitions as their intra- and inter-sector diversity is high. Moreover, some actors in the more subsidised sub-sectors, such as performing arts or theatre, may not recognise themselves as operating within an industrial model. Thus, traditional industrial policy models are not adequate in supporting all cultural and creative sectors equally well. CCS are dominated by uncertainties that affect their possibilities to be financed. It becomes challenging to finance CCS only according to their performance on certain indicators (for instance, indicators of quality, productivity or success). The design of policy tools to catalyse or improve the financing of culture needs to pay attention to CCS unique characteristics. Thus, traditional industrial policy models could be enhanced by taking a more ecosystem-based approach, such as that taken in the EU industrial strategy (EC, 2021[81]; 2020[82]), and integrating sector-specific policy initiatives.

Innovation in financial ecosystems involves understanding the business fabric of CCS. Since small and medium companies, freelancers and non-for-profit organisations are overrepresented in CCS, adequate support tools should recognise the importance and the specific needs of these creative communities. In this sense, public funding might leverage private involvement in less economically attractive but socially relevant projects.

Recognise in the financial ecosystem the project-based schemes commonly used in CCS

Project-based schemes are commonly used in CCS and should be reflected in their financial ecosystem. Support policies based on a silo vision (to start, to develop the idea, to invest in infrastructure, etc.) would benefit from new approaches that cover the whole lifecycle of a project. Many different actors are involved in a particular project. The existence of well-established networks allows the development of ad hoc communities that do not lack expertise or interest but need financial resources to flesh out the new ideas. The financial gaps between creativity, exploration and innovation, and exploitation have stimulated the development of new forms of innovative support to culture and CCS.

Enhance networking opportunities

Innovative financial approaches to CCS and culture should enhance and protect their own intangible assets, like, for instance, their professional networks and relationships, and reinforce the weakest links. Since CCS are strongly based on the “projectification” of their ventures, keeping their connections alive is essential to develop innovative financial solutions by building upon the formal and informal relations that shape artistic production networks and their vast ramification in other sectors and social areas. However, artists and investors need to better align and coalesce around their common interests. Strategic support is needed to allow better synergies between those in need of financial means and those able to provide them.

Use public funding to leverage private involvement in areas of social impact

There is a global trend among investors to focus on investments that have a positive impact on society and the world at large. CCS are well suited to benefit from this growing trend in impact investment (Creativity, Culture and Capital, 2021[83]), as "simply acquiring art and building a collection for private enjoyment feels increasingly outdated in today's world" (Deloitte, 2019[84]). Moreover, there is also a general increase in cultural participation and involvement of communities and individuals who are not professional investors but who are willing to support such sectors through crowdfunding and other micro-finance type arrangements.

Ease access to crowdfunding

Access to crowdfunding can be eased by enabling the technological and financial environment as well as by addressing skills gaps such as financial literacy. Crowdfunding provides access to financial resources to artists and creators that otherwise would not occur, especially in early-stage finance of their careers. Regional and national authorities may consider actions to provide an enabling technological and financial environment. Crowdfunding platforms need internet access, bank accounts and online payment systems. There is also a need to ensure cyber-security, design prevention mechanism, and dispute and resolution mechanisms, as well as to increase the financial literacy of entrepreneurs and citizens (OECD, 2015[85]).

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