



DIRECTORATE GENERAL FOR INTERNAL POLICIES  
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

CULTURE AND EDUCATION

# ENCOURAGING PRIVATE INVESTMENT IN THE CULTURAL SECTOR

EXECUTIVE SUMMARY

## **Abstract**

The study identifies trends in encouraging private investment in the cultural sector in EU Member States. The study elaborates on empirical data gathered through questionnaires, case studies of five countries and desk research. It provides an overview of mechanisms and measures used to encourage private investment, including: tax framework (i.e. encouraging the consumption of culture and business and philanthropic investment), financial and banking schemes and intermediary mechanisms. A comparison between private investment in culture in the United States and in Europe is provided.

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## LIST OF ABBREVIATIONS

<b>A&amp;B</b>	Arts & Business
<b>ABSA</b>	Association for Business Sponsorship of the Arts
<b>ACE</b>	Arts Council England
<b>ACRI</b>	The National Association of Local Savings Banks and Banking Foundations
<b>ADMICAL</b>	Carrefour du Mécénat d'Entreprise (A network for corporate philanthropy)
<b>AEDME</b>	Asociación Española para el Desarrollo del Mecenazgo Empresarial
<b>BC</b>	Bondardo Comunicazione
<b>BDI</b>	Haus der Deutschen Wirtschaft (Federation of German Industry)
<b>CAF</b>	Charities Aid Foundation
<b>CATI</b>	Computer-assisted telephone interviewing
<b>CCR</b>	Corporate Cultural Responsibility
<b>CEG</b>	Creative Exports Group
<b>CEREC</b>	European Committee for Business, Arts and Culture
<b>CHPA</b>	Cultural Heritage Protection Act
<b>CIAV</b>	Audiovisual Investment Certificate Programme
<b>CNC</b>	Centre National de la Cinématographie
<b>CSR</b>	Corporate Social Responsibility
<b>CZK</b>	Czech crown, currency
<b>DCMS</b>	Department for Culture, Media and Sport
<b>EC</b>	European Commission
<b>EEA</b>	European Economic Area
<b>EFCS</b>	European framework for cultural statistics
<b>EGEDA</b>	Audiovisual Producers' Rights Rearrangement Association
<b>EIS</b>	Enterprise Investment Scheme
<b>EU</b>	European Union
<b>EUR</b>	Euro, currency

<b>FPC</b>	Film production company
<b>GBP</b>	Pounds sterling, currency
<b>GDP</b>	Gross Domestic Product
<b>ICAA</b>	Institute of Cinematography and Audiovisual Arts
<b>IFCIC</b>	Institut de Financement du Cinéma et des Industries Culturelles
<b>IMO</b>	Institut za međunarodne odnose (Institute for International Relations)
<b>IWK</b>	Initiativen Wirtschaft für Kunst (The Austrian Business Committee for the Arts)
<b>JSKD</b>	Public Fund for Cultural Activities
<b>LOF</b>	Law on Foundations
<b>MKIDN</b>	Ministerstwo Kultury i Dziedzictwa Narodowego (Ministry of Culture and National Heritage)
<b>MLA</b>	Museum, Libraries and Archives Council
<b>NCK</b>	Narodowe Centrum Kultury
<b>NDPB</b>	Non-departmental public body
<b>NESTA</b>	The National Endowment for Science, Technology and the Arts
<b>NEA</b>	National Endowment for the Arts
<b>NGO</b>	Non-governmental organisation
<b>NHMF</b>	National Heritage Memorial Fund
<b>NIOK</b>	Nonprofit Information and Training Centre
<b>NPO</b>	Non-profit organisation
<b>NSRK</b>	The National Strategy for the Development of Culture
<b>Nyx Forum</b>	Danish Forum for Art and Business
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PBA</b>	Law on Public Benefit Activity and Volunteerism
<b>PBO</b>	Public Benefit Organisation
<b>PDAIA</b>	Protection of Documents and Archives and Archival Institutions Act
<b>PLN</b>	Polish złoty, currency
<b>PPP</b>	Public-private partnerships

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<b>PVF</b>	Philanthropic Ventures Foundation
<b>RCAHMW</b>	Royal Commission on the Ancient and Historical Monuments of Wales
<b>R&amp;D</b>	Research and development
<b>RTV</b>	Radio television
<b>SAZAS</b>	Združenje skladateljev in avtorjev za zaščito glasbene avtorske pravice Slovenije (Society of Composers, Authors and Publishers for Copyright Protection in Slovenia)
<b>SEK</b>	Swedish krona, currency
<b>SKK</b>	Slovak crown (koruna), currency
<b>SME</b>	Small and medium enterprises
<b>SOFICA</b>	Société pour le Financement de l'Industrie Cinématographique et Audiovisuelle
<b>TCA</b>	Tax Consolidation Act
<b>TFEU</b>	Treaty on the Functioning of the European Union
<b>UK</b>	United Kingdom
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organisation
<b>US</b>	United States
<b>USD</b>	United States dollar, currency
<b>VAT</b>	Value added tax
<b>VP</b>	Venture philanthropy
<b>ZUJIK</b>	Exercising of the Public Interest in Culture Act
<b>ZAMP</b>	Združenje avtorjev Slovenije (Slovenian Authors' Society)
<b>WWIK</b>	The Income Provisions for Artists Act

## EXECUTIVE SUMMARY

### 1.1. Introduction

#### 1.1.1. The scope of the study

The mixed funding economy of arts and culture is generally perceived as a model of financial sustainability. While different sources of financing for cultural activities include public support, private support and earned income, this study is dedicated to the analysis of private investment in culture. This study seeks to analyse the various forms of private investment from the point of view of cultural policies and existing stimulatory measures. The study aims to provide the European Parliament with a better understanding of the importance of public incentives for the private funding of culture. The main focus of this research is on the importance of the economic, political and cultural aspects of the funding modes and mechanisms developed by governments to encourage private investment in the culture sector and the spread of the use of such modes and mechanisms. The study tries to identify general trends in the EU regarding private financing of the cultural sector, along with providing examples of new practices and policies in EU Member States. Its focus is on investigating the main motivations for financing the cultural sector and the main obstacles faced by private investors. The study addresses the need for comparative cultural policy research in this field and emphasises the common responsibility of EU member states to provide comparative data on the EU level. A short analysis of trends and main differences in comparison with the United States is also included.

The term private investment, as defined in this study, includes any investing in, giving to or spending on culture done by individuals, businesses or non-public organisations. This definition extends beyond a concept of private investment that is primarily associated with capital returns to include private support and earned income derived by individuals, business and not-for-profit organisations, whether they invest in, sponsor, donate to or consume culture. Therefore, the relevant forms of support discussed in this study are direct investment, sponsorship, patronage and donations, and earnings from self generated income such as tickets, entrance fees and other merchandise. Investing, giving and spending are driven by different motives: investing is driven by the principle of gain, as measured in terms of profit, giving is driven by the principle of social responsibility, as expressed through social, symbolic and similar non-economic values of culture, and spending is driven by the principle of the consumer's sovereignty, as measured by market or use value of culture, as well as culture's intrinsic value.

#### 1.1.2. Data sources used

The widely held perception that the mixed funding economy of arts and culture could raise new perspectives for the sustainability of cultural sector activities instigated a pressure for finding other sources to complement public funds and encourage their use. Therefore, it is surprising that there is not sufficient comparative data about the size of private funds for culture and the effectiveness of given measures and comparative methodology in Europe. Some limited insight into different national realities is available through studies and surveys on private giving and cultural sponsorships that have been conducted by arts and business organisations. However, the existing data is being collected using different methodologies and therefore lacks comparable quality on a European level.

To compensate for the lack of systematic data on issues related to private investment in culture, and particularly on existing incentives for private investments in the EU, an attempt has been made to gain insight into the situations regarding private investment in different EU countries by collecting information via questionnaires. A questionnaire was sent to 27 Ministries of Culture in the EU to collect data on existing incentives for private investment in culture. The received answers varied in the levels of detail provided. We received answers from many Ministries of Culture informing us that such data are not systematically collected by them, or that they belong to competencies of Ministries of

Finance. The existing arts and business organisations and cultural organisations in Europe have also been contacted with short lists of questions about private investment in the cultural sector. Deeper insight has been made into selected countries by creating five case studies (Italy, the Netherlands, Poland, Slovenia and the United Kingdom). The Compendium of Cultural Policies and Trends in Europe, a pan-European cultural policy mapping exercise, was another valuable data source for this analysis. Extensive desk research of relevant literature focusing on this subject has also been conducted.

### 1.1.3. Structure of the study

The study consists of seven chapters. Chapter I gives an introduction to the study. Chapter II provides the context that explains the main terms used in the study, giving basic cultural policy concepts and modes of funding, and providing a framework for understanding the role of taxation and its main characteristics. It gives an overview of the financing of arts and culture by classifying it into three sources (i.e. public funding, private funding and earned income) as well as according to the different funders (i.e. corporate, individual and non-profit). The chapter elaborates on the modes of funding through its economic, political and cultural dimensions. Bearing in mind the cultural sovereignty of EU Member States and the limited role of the EU tax regulation, this chapter also briefly addresses the impact of EU regulation on taxation in Member States. Typology of different kinds of private investment is made according to motives for such investments (e.g. direct investment, including public-private partnership; sponsorship; patronage and donations). It underlines that all governmental endeavours are in close relation with the proactive cultural sector: cultural entrepreneurship, effective marketing, intensive fundraising and audience development, along with 'digital shift', present new challenges for all involved. Chapter III describes selected mechanisms, instruments and measures regarding tax reductions and deductions, financial incentives aimed at attracting potential co-funders, major organisations that mediate between arts and business or arts and state sectors and other policy guidelines that might introduce new trends. Chapter IV presents five case studies from different parts of the EU: the North and South, old and new Member States and diverse cultural policy traditions (Italy, the Netherlands, Poland, Slovenia and the UK), in an attempt to identify existing practices and trends in encouraging private support of culture. Chapter V discusses the US system of incentives for private investment in culture in a comparative perspective. One of the reasons for disparities is the presence of cultural and systemic differences within European and US funding systems. Thus, selected mechanisms of US private funding are made available for consideration in this study. Chapter VI offers some final reflections, while Chapter VII proposes recommendations on how to encourage private financing of the sector at the EU level, as well as through policy ideas that lie outside the EU's strict area of competence but might correspond to the perceived trends relevant for national and regional governments.

The materials developed by the project-team, on which this report is based, consist of five annexes attached to this study: Annex 1 presents measures for encouraging private investment in selected cultural sectors; namely the audiovisual and cultural heritage sectors. Annex 2 brings complete, in-depth versions of the case studies that are presented in Chapter IV of the Study. Annex 3 consists of an inventory of existing incentives for encouraging private investment in culture in EU countries that was made as a working file for this study. Annex 4 outlines the US system of private giving and its characteristics in more detail than in Chapter V, while Annex 5 offers a short glossary of terms used in the study.

## 1.2. Private investment in culture: Underlying concepts

In this study, **culture** is considered a sector of activity around the original creative arts that has economic impact and generates social benefits by creating, producing and distributing goods and services in different cultural areas. The cultural sector outputs embody different values of culture. To properly assess the value of culture, one has to consider culture as private market good, as well as a public good. The two main aspects of the value of culture are economic value and cultural value. Economic value consists of use

and non-use values. Market or use value of culture can be expressed in terms of prices that are charged for cultural goods and services. The concept of non-use values denotes values that individuals associate with cultural goods or services despite not personally using them (e.g. attending events, seeing exhibits, reading books) (Hansen, 1997; Navrud and Ready, 2002). Non-use values can be further classified into option, bequest, existence, prestige and educational values (Frey and Pommerehne, 1989). The concept of cultural value refers to the value that a cultural good or service has, regardless of its place in the economic system. Cultural values are divided into social, symbolic, aesthetic, spiritual, historical and authenticity values (Throsby, 2001).

For the purposes of this study, a classification of sources in a **mixed funding economy** has been developed. Accordingly, there are three main sources of the financing of culture in Europe: public support (direct and indirect), private support (business support, individual giving, foundations and trusts) and earned income.

**Public support** includes public direct support and public indirect support. *Public direct support* for culture is defined as any support to cultural activities made by governmental and/or other public bodies. Public direct support includes subsidies, awards, grants, etc., that is, money is transferred directly from the public funds to the recipients' accounts. *Public indirect support* consists of measures, adopted by governmental and/or public institutions, usually via legal acts, for the benefits of cultural organisations that do not involve money transfer from the former to the latter. Indirect measures refer mainly to tax expenditures, that is, the income that local and national governments forego because of tax reductions and exemptions granted to cultural institutions, matching grants, and other financial or banking schemes whereby beneficiaries, rather than government officials, determine which organisations will benefit.

**Private support** - Private support for culture denotes any financial support provided by investing, giving or spending at the individual or non-public level. Private support can be further divided into business support, individual giving and support from foundations and trusts. *Business support* denotes direct investment aimed at capital returns, including public-private partnerships and investments in arts collections, as well as sponsorship and corporate donations. *Individual giving* encompasses all transactions made by individuals, with a purpose of donating or contributing to culture. Individual giving should be distinguished from household expenditure for culture, which falls under the category of earned income. Support from *foundations and trusts* denotes support from intermediary institutions, usually founded by law, that serve special purposes and missions and are supported by private endowment.

**Earned income** - This category includes all individual spending for cultural purposes, such as, entry fees to cultural institutions, or the buying of cultural objects. Earned income therefore denotes all direct income made by cultural organisations on the market.

Public direct support to culture currently shows a tendency to decrease, with **the effects of the recent financial crisis** speeding up this process. Most countries are reaching the limits of their budgets, and are therefore starting to show willingness to experiment with systems of private support to culture. During the previous decades, the level of business support in European countries has been on a rise, but is presently diminishing due to the recent financial crisis. Private foundations in Europe are also cutting their budgets, and individual spending has also been negatively affected.

There is a link between investments in culture and values of culture. There are four subcategories of private investment in culture according to the motives for such investment: **direct/capital investments**, which have profit as their main motive (and are therefore mostly concerned with economic value); **sponsorship**, which is a two-sided business interaction (it brings profit and brand recognition to businesses as well as benefits to cultural organisations); **donations and patronage**, in which the motives of donors and



patrons are mostly in concordance with social, symbolic and similar non-economic values, that is, donations are mostly concerned with the realisation of cultural values, in all their various forms; and **earned income**, which reflects both economic and cultural values.

Private funding also contains various imperfections, namely its focus on conventional artistic programmes and prestigious cultural organisations. Therefore the mixed economy, with public funding providing solid foundations for the stability of the sector, private funding supporting selected events or producers according to individual preferences and earned income giving value for money to consumers, can redeem from the defectiveness of each form of funding on its own. The diversification of sources of funding strives to smooth out unsystematic risks so that the positive performance derived from one funding source will neutralise the negative characteristics of another.

The cornerstone of the encouragement of private investment in the cultural sector is **tax policy**. The intersection between tax policy and cultural policy is evident, since tax regulation can have positive or negative implications on culture. Cultural policy and fiscal policy have always been and are increasingly becoming more and more intertwined. Tax legislation is important in terms of enlarging the financial independence of the cultural sector. As a mean of channelling public funding to the arts, the major advantage of tax policy is its neutrality in the sense that tax incentives do not relate to artistic contents. Rather, the criteria are general, and are linked to the field or types of beneficiaries. It is left to individuals, corporate businesses and non-profit foundations to make their own cultural decisions. Therefore, it is important to understand and promote tax policy that takes cultural aspects into account as a relevant instrument of cultural policy, thus allowing for individual decision making in supporting cultural projects.

There are many different terms that are used in referring to tax measures such as tax reliefs, tax breaks, tax deductions, tax exemption, tax allowance, tax incentives, etc. While most of these terms refer to write-offs that reduce the amount of tax base, tax incentives refer to specific measures aimed at the encouragement of desirable behaviour towards the arts and culture. Tax breaks are rarely designed for the culture and arts specifically, but are designed for the broader philanthropic category (O'Hagan, 1998). The field of culture is just one among many charitable domains, such as social affairs, health, sport, religion, etc. As available statistics do not always differentiate culture from the other philanthropic fields, it is difficult to monitor the private investment made in culture through the available mechanisms. At the EU level the reduced VAT rate represents one of the most significant measures of indirect public funding, thus making VAT policy an important instrument of European cultural policy.

### **1.3. Private investment in culture: Selected mechanisms and measures**

Different measures and mechanisms have been developed for increasing the support of private funding of arts and culture, such as: tax incentives for donors, consumers and sponsors, stimulations for fundraising through matching grants to combine public subsidy with money raised privately, regulation of private public partnership, support of intermediary mechanisms (e.g. arts and business forums, grant giving foundations, lottery based funds and social venture funds), use of publicly funded vouchers that stimulate cultural organisations to compete for audiences and banking schemes that provide for favourable access to loans. In comparison to public subsidies (i.e. awards and grants) as forms of direct public support, these measures represent indirect public support of culture. The state supports arts and culture indirectly through various efforts at stimulation, including tax forgone policies, whereby tax payers and beneficiaries, rather than government officials, determine which organisations will benefit.

This chapter presents the selection of sixteen specific mechanisms and measures for encouraging private investment in culture in EU Member States. They have been identified through the questionnaire sent to the Ministries of Culture in EU countries, through data available from the Compendium of Cultural Policies and Trends in Europe and from other secondary sources used in this study, as well as through insights gained through case studies.

1. Tax incentives on the consumption of culture are those measures in which a subject of taxation is any form of cultural consumption (e.g. buying music, paintings, sculpture). Most general forms of such measures are **VAT reductions** for buying cultural goods, tax deductions for buying cultural objects, and other measures, such as transfer of art in lieu of payment of tax. The VAT reductions for buying cultural goods and services present the main implicit subsidies for cultural industries, especially in cases of market failures (i.e. when cultural products have to be subsidised since the market is too small to operate in an efficient manner).
2. Our research through questionnaires, as well as the supporting data from the Compendium, shows that the data on measures supporting **sponsorship** are inconsistently monitored. Business sponsorship of culture is present in all surveyed countries. Although sponsorship has a great potential and is encouraged via tax incentives, sponsorships still represent a small portion of the budgetary incomes of cultural organisations.
3. **Public-private partnerships (PPP)** usually denote an agreement between a government and the private sector regarding the provision of public services or infrastructure. Social priorities are thus merged with the managerial skills of the private sector, thereby relieving the government of the burden of managing large capital expenditures and transferring the risk of cost overruns to the private sector.
4. **Percentage legislation**, or percentage philanthropy, is a tax measure through which taxpayers may designate a certain percentage of their income tax to be allocated to a specific non-profit, non-governmental organisation, and in some cases to other organisations, such as churches. This measure is characterised by two features: 1) taxpayers themselves individually decide on how a portion of their tax paid will be allocated; 2) the use of the designated funds is restricted to supporting certain beneficiaries (Bullain, 2004). Among EU Member States, percentage legislation systems in Eastern European countries, such as Hungary, Lithuania, Poland, Slovakia, Romania and Slovenia, are most widely recognised, though the system exists in some other countries, like Italy.
5. **Individual donations** for cultural purposes are defined as one-sided business transactions, from which the donor expects no direct benefit. Donations can be made in cash or in kind. Donations typically follow higher cultural values, and profit is not the main motivation. However, in situations where the donor receives some incentive to donate to culture, better results for the cultural organisations are usually achieved. A number of EU Member States have implemented measures regarding the stimulation of individual donations. Several countries offer deductions for individual donors, following examples from the US and countries of Anglo-Saxon cultural policy tradition. Some of these countries (like Germany, Italy and Greece) have special incentives for inheritance taxes, where the tax on bequests can be reduced up to 60% (Germany).
6. **Corporate donations** are gifts, in cash or in kind, made by companies and other legal subjects to cultural organisations or individual artists. Measures supporting corporate donations most often take the form of tax incentives for donors. Despite being a well established measure in countries of Anglo-Saxon cultural policy tradition, measures supporting corporate donations were found less frequently among the answers to our questionnaire than measures supporting individual

donations. The lower number of answers in this category may be attributed to the lack of appropriate information and monitoring in this field.

7. Several countries allow taxpayers to **transfer** their property, including works **of art, in lieu of payment of different taxes**, such as estate tax. Such a system effectively acts as a 'tax credit' system, as compared to a 'tax deduction' system (Freudenberg, 2008) and thus is more beneficial for taxpayers than for the treasury.
8. **Matching funds**, or matching grants, is a term used to describe the requirement or condition that stipulates that private donation in money or in kind has to be matched by a certain amount proportional to the value of the donation from a third party (e.g. state or local community). There is a positive relationship between public subsidy and private investment; that is, private investors are likely to give more to culture when they are reassured of the value of this investment by seeing government support. Therefore, matching funds are being explored as a possible way to ensure that public investment works hard to harness greater investment from the private sector.
9. In many countries, **lottery funds** for culture are an important source of private investment in culture, as their distribution has allowed cultural interventions that would otherwise have not been possible. The use of lottery funds for culture is a rather new measure, but is gaining importance with the search for additional subsidies in the cultural field. Lottery funds collection and redistribution methods vary from country to country. These funds are often connected to earmarked taxes, and are thus earmarked for specific cultural purposes.
10. Another form of stimulating private investment in culture is the use of **vouchers**. In general, a voucher is a credit of a certain monetary value that can be used only for a specified purpose. In the culture sector, vouchers are used as a manner of stimulating demand for cultural products. In Europe, the most well-known voucher system is in Slovakia. Similar schemes have been tried in Germany and the United Kingdom.
11. An **earmarked tax** is a tax whose revenues (by law) are reserved solely for a specific group or usage. There are cases where earmarked tax recipients will also receive additional funds from state budgets. Earmarked taxes can be commonly found in the sectors of education, highway construction, ecological issues and social security (Pasquesi, n.d.). The use of earmarked taxes was seldom noted in answers to our questionnaire, or in secondary literature. This possibility provides another option for the efficient provision of complementary funds to cultural activities.
12. **Banking schemes** are usually schemes implemented by banks, or related to the work of banks, for directing bank support to the cultural sector. Banking schemes can include loan schemes that give a preferable interest rate to cultural activities, or any other instruments that favour cultural activities. One good example of a banking scheme exists in the Netherlands, where Triodos Bank has decided to focus its communication and corporate responsibility activities to support the cultural sector. The Triodos Cultural Fund issues loans to cultural institutions and finances the construction and renovation of cultural institutions such as museums and theatres (Holterhues, 2009).
13. Systems of encouragement for private support of culture are sustained by different grant-giving bodies. **Foundations** refer to a legal categorisation of non-profit organisations that typically either donate funds and support to other organisations, or provide the source of funding for their own charitable purposes. The European foundation sector is growing dynamically and is achieving a major presence and significance in the cultural sector. Most foundations support social issues and

agendas, while culture represents the focus of activity of a smaller and limited number of foundations.

14. Another emerging form of private investment in the culture sector is **venture philanthropy** (VP), which applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sectors. It is a form of 'engaged' philanthropy.
15. Existing **arts and business organisations** provide important services through their training activities, awareness raising activities and linkage between the arts and business sectors. The establishment of such specialised agencies, which encourage engagement between business companies and the arts sector, enhances private involvement in the cultural sector. A particularly important aspect of their activities is monitoring and reporting on corporate giving endeavours, as data on private investment in culture is not systematically collected on national or European levels.
16. The importance of the new mechanisms developing in the digital arena, such as **crowd funding and online fundraising**, are highlighted as important new instruments for encouraging private investment in culture.

#### 1.4. Private investment in culture: Country case studies

Europe has diverse systems of cultural policies in place that try to respond to challenges in balancing economic efficiency and productivity on the one hand and pursuit of desired social and cultural goals on the other (Boorsma, 1998). These systems differ in their organisational models, from centralised bureaucratic models to arm's-length models. Accordingly, there are differences in the uses and roles of indirect public policy measures, such as tax deductions and incentives, as well as demand-oriented subsidies, such as vouchers, interest-free loans, matching funds and public finance partnerships, and levels of presence of intermediary organisations (e.g. arts and business organisations and public benefit foundations).

For the purpose of analysing cultural policies and the ways in which they address this challenge, five in-depth country case studies have been included in this study. The cases of these selected countries bring insight into different systems that are currently in place and identify practical measures and examples of the best national practices in encouraging private investment in the cultural sector. The case studies thus identify different realities and issues regarding the financing of culture. The selected countries that are presented illustrate diverse European contexts: Italy, the Netherlands, Poland, Slovenia and the UK. The case studies findings highlight European commonalities and differences. The findings show that the UK and the Netherlands (countries of Anglo-Saxon cultural policy tradition) have the most advanced mechanisms and measures for stimulating the private sector in giving to culture. Slovenia and Poland, as new members of the EU with post-socialist backgrounds, have still underdeveloped systems of support for private investment, due to rather inflexible cultural sector structures. Italy, as a country of Mediterranean tradition, is a half-way case; state dominion is still present, as are ample opportunities for private sector involvement.

- The Italian case shows that, while the state holds the principal role and responsibility for supporting culture, there is a wide array of initiatives, incentives and systems in place for encouraging private support of culture. The most substantial position among these systems is assumed by banking foundations.
- Private giving to culture in the Netherlands has increased in the last decade, both as a share of total giving and in absolute amount. A great deal has been achieved by the government in terms of tax legislations and programmes that stimulate private giving. The present model of Dutch cultural policy combines both characteristics of

arm's-length and entrepreneurial models. Announced changes in the cultural policy for the next four-year period stress the importance of entrepreneurial models.

- In Poland, encouraging private investment in culture is still in its early stages, and it needs a well-elaborated strategic approach for its further development. Such a need is connected to the need for overall restructuring of the cultural sector in Poland.
- There are too few structural changes leading to greater involvement of the private sector in culture in Slovenia. Despite the existing cultural policy objectives toward modernisation of the public sector in culture and mobilisation of private funding, there are few concrete measures in place that seek to implement this direction.
- In the UK, the so-called 'golden standard' for the financing of culture is considered to be a 'tripod economy,' whereby each source of income (public, private, earned) accounts for a third of total income. In reality, only earned income accounts for a third of total income (32%); public funding accounts for an average of 53% of arts organisations' income, while private investment represents the remaining 15% (Mermiri, 2010a). Due to the recent cuts in national and local arts budgets, the arts and culture sector is faced with the necessity of finding alternative sources of income, namely private investments, to replace public subsidy. The government is looking into new ways to encourage private sector involvement by developing a challenge fund to incentivise donors and build the fundraising capacity of arts organisations.

### **1.5. Europe vs. US: A comparative overview of the incentives for private investment in culture**

A comparison of EU and US trends in private investment in culture shows major differences in policy orientation and consequent outcomes. The systems are different both in their structures as well as in amounts of private giving. Some differences are related to political and legal environments, some stem from the availability of resources committed to fundraising and existence of a culture of asking, and some lie with the culture and tradition of giving and extending wealth.

Since the 1990s, major shifts in policy development, both in Europe and the US have occurred. While European countries have introduced fiscal legislation that supports and promotes private investment in culture, in the US, public bodies substantially reduced public support to culture, thus leaving it in the hands of market forces.

The distinction of culture as a public good and culture as a market commodity is the crucial differentiation when comparing levels of support for the cultural sector in the European countries and the US. The main challenge for Europe remains to maintain its achievements in terms of supporting arts and culture as a public good, while encouraging mechanisms for private funding which are more stimulating, broad and versatile.

Most of the differences between the US and the EU are evident in fiscal policy provisions, where the US employs more tax measures targeted at involving private sector giving to culture. Such measures include, by functional description: the diversity of forms of private giving, higher percentage of individual giving in the total private funding of culture, the charitable gift mechanisms created out of tax framework (e.g. pooled income fund, charitable remainder trust, charitable lead trust), the higher tax relief limit of individual giving and the eligibility criteria for tax relief.

In the US, business support of arts and culture has shifted from charitable giving to a more marketing-based and sponsorship-oriented strategy.

The differences in the levels of individual giving in the US and Europe generally relate to federal income tax, estate tax, capital gains tax and gift tax. The instruments that the US

system employs, that are less commonly used in Europe, are in the fields of venture philanthropy and planned giving.

The high level of private support for the arts in the US does not necessarily result in a financially stable arts sector. Constant growth in fixed costs, combined with increasing competition, higher expectations from patrons, decreased public funding and overall economic crisis, re-opened the discussion regarding appropriate levels of support from both private and public funding of culture.

## 1.6. Final reflections

The European system of cultural financing is predominantly state oriented, and willingness to implement incentives for private giving is dependent on public policy frameworks and political determination. Most European countries are reaching the limits of their budgets, especially in light of the recent economic crisis, and should therefore show an increasing willingness to experiment with systems of private support to culture. However, very few new policy measures for encouraging private investment in culture have been implemented, thus showing that policies lag in their responses to current trends and challenges.

Following are highlights that underline the key points of this study:

- Public direct support to culture currently shows a tendency of decreasing, with the effects of the recent financial crisis speeding up this process. The need to reform the cultural sector to make it more sustainable and entrepreneurial is recognisable in European cultural policies, although the reality shows different levels of realisations of this strategic objective.
- Public direct support focuses primarily on supporting cultural infrastructure and production (i.e. cultural supply), but recent trends show that policies have changed in perspective to take consumption into account. The new consideration of consumption has resulted in a request for cultural organisations to demonstrate their relevance for audiences.
- Indirect public support measures via tax incentives in Europe are well developed, but the take-up of these provisions by citizens, cultural organisations and businesses varies in different countries, showing that the culture of giving needs to be promoted and developed.
- The tendency to over-emphasise the potential of private support to serve as an alternative to public support is controversial because private funds are decreasing rapidly in the period of crisis and many findings underline that there is a positive correlation between the roles of the state and private investment in culture. Public intervention in terms of matching funds or fiscal encouragement builds trust in the importance of culture for sponsors and donors who want to capitalise in an already successful and important sector.
- In Europe, the professionalization of fundraising is not adequately developed. While there is a need for such professionalization, the critical decision to employ fundraisers is very difficult to make when there are often not enough funds to properly pay for core cultural or artistic activities, or to appoint external fund-raising consultants. Therefore, fundraising is not sufficiently included as an integral part of the operational structure in most cultural organisations.

The general idea to increase the level of private contribution to arts and culture is widely considered as a promising alternative aimed at increasing the financial sustainability of the cultural sector in a period when public funding has been placed under serious scrutiny. However, the decrease in sponsorship and donations during the economic crisis does not support this idea. More efforts are needed to establish stronger ties between audiences, businesses and communities to recognise the different values of culture and to take

advantage of them according to the various different motives behind private decisions to invest in culture. Governments face challenges in improving political and legal environments to promote and reward private support to culture. Sponsors must be encouraged to explore new opportunities for more innovative advertising through the arts and culture, patrons must be encouraged to rediscover their passion to recognise new talents, donors must be encouraged to feel included in the shaping of cultural life and the cultural sector must be encouraged to find out that fundraising and sponsorship are not important for financial reasons only, but also for the social legitimisation of cultural missions.

## 1.7. Recommendations

Based on the findings of this study, the imminent challenges for encouraging private investment in the cultural sector are as follows:

### ➤ **Development of a good balance between direct and indirect public support for arts and culture**

Due to the specificities of European cultures and models of cultural development in Europe, the encouragement of private investment in culture should not be detrimental to public funding. Public and private funds are complementary, since a solid base of public funding consolidates the perception of trust in the public value of culture on the one hand, and provides for the stability of the cultural sector on the other. In a time of crisis, the demand for cultural goods suffers more reduction in respect to the demand for other goods. In order to preserve public value of culture, public support is indispensable.

### ➤ **Development of methodologies for collecting comparative information**

The lack of systematic comparative data of the EU tax situation that applies to the cultural sector, and the absence of data based on common methodology, are serious impediments for the research into private investment in culture in Europe. Another challenge is to develop a common framework to classify different forms of philanthropy, with culture as a separate category, and with various schemes available to make comparative research easier in the future. Thus, the existing initiatives, such as Eurostat's Cultural Statistics, and the Council of Europe and ERICarts Compendium project, need to be further elaborated.

### ➤ **Development of further support for international associations for monitoring comparative data and practices**

The dispersion of measures and mechanisms across EU Member States substantiates the need for international bodies and networks, which could provide more accurate and independent assessment of data and practices, as well as more efficient distribution of results to target groups. Data collected by the arts and business forums are valuable sources of information but would further benefit from a unified methodological approach to collecting and interpreting data. Providing further support for the international umbrella associations of existing arts and business forums and other intermediary bodies should be a natural task of the EU, in order to create and promote conditions that are beneficial to private funding of the arts and culture.

### ➤ **Raising awareness and understanding about existing tax measures and benefits**

The main discrepancy between the American and European system is not about the different measures (though this is sometimes the case), but mostly about their implementation. In Europe, favourable tax measures are defined in many different laws (Law on Income tax, Law on Inheritance and Gift Tax, Law on VAT, etc.) and pertain to different sectors (e.g. broadcasting, education, environment). Therefore, there is a general lack of awareness among beneficiaries and investors/donors/sponsors. Raising awareness and understanding of the existing and planned tax measures is a necessary step towards productively utilising existing regulation. The effective use of legal provisions requires the creation of a cross-national catalogue or guide for giving, with a thorough description of the

national legislation in force and national campaigns that promote the use of available tax measures.

➤ **Development of public support to the professionalization of fundraising**

Another difference between the US and European system is evident when considering resources devoted to fundraising efforts. Corresponding to the levels of private support to culture in America, the American system fosters good fundraising practices, while fundraising is merely a complementary and irregular mechanism in the European cultural system. In the case of insufficient funds to cover core programming costs, the professionalization of fundraising requires targeted cultural policy measures to support the development of fundraising programmes and strategies.

➤ **Raising awareness of lobbying possibilities given by the Article 167(4) of the TFEU (ex Article 151(4) TEC) to develop policies with cultural implications**

Article 167(4) of the TFEU stipulates that European institutions shall take cultural aspects into account in their actions under the various provisions of the Treaty. This article gives EU institutions the power and possibility to lobby for cultural issues, including mechanisms and measures to steer private investments to culture.

➤ **Harmonising VAT measures without threatening cultural goods and services' exceptional status**

The harmonisation of VAT measures is proclaimed by the European Union as one of the possible paths for future development of tax legislation in the EU. When following such changes, one should be careful not to ruin what has been achieved with cultural VAT exemptions mentioned in the study, and should follow the example of states that have a beneficial, exemplary status for cultural goods and services.

➤ **Providing support for the arts and business forums as mediators between arts, business and legislators**

Arts and business forums are intermediary mechanisms that encourage donors to develop a culture of giving, and encourage cultural organisations and artists to develop a culture of asking. These organisations take an active role in establishing and promoting partnerships between the cultural and business sectors. Such partnerships imply that the business organisations that support cultural projects get strategic insights of their brand images and visibility as promoted in the partnerships with the cultural organisations, while cultural organisations get more security in long-term programme planning. Arts and business forums are also vehicles used for the implementation of preferential tax schemes in practice.

➤ **Promotion and exchange of best practices in fiscal policies for encouraging private support to culture in the Member States**

The support of fiscal policy is very important in setting the framework for a greater involvement of private funds. Public officials and bodies with authority in the cultural field have somewhat limited insight into the diversity of measures and means available in the fiscal domain. Therefore, it is not surprising that greater support to enhancing existing or introducing new measures that would encourage private investment in culture is missing. This situation underlines a need to monitor and evaluate the effects of fiscal policy implementation in the cultural field, and to engage in a cross-comparative analysis on the EU level with the aim of detecting optimal solutions. Without competent tax expenditure analysis done by tax authorities and ministries of finances, any attempt to improve the tax environment is ideology-driven instead of being an articulated, pragmatic response to a shifting long-term fiscal outlook.



➤ **Cultural policy action driven by different values of culture**

A complexity of factors influence private investment for culture - some are external to the cultural sector (such as, the broader political and legal environment), some lie with the donor (such as, the culture of giving and extending wealth, including its intergenerational transfer in future years) and some are internal to the cultural sector (such as, resources committed to fundraising and the culture of asking). Such complexity requires cultural policy action that is multidimensional and holistic in its formulation and implementation, and is driven by different values of culture. Still, one of the principal challenges for cultural policy making is to create proactive mechanisms that can respond to imminent changes in the social, political and economic environments. Cultural policy measures for encouraging private investment in culture should predominantly address the development of competencies in the cultural sector for establishing productive relationships with the private sector. Furthermore, cultural policy development directions should result in providing adequate legislative framework that stipulates mixed economy principles as grounds for achieving sustainability.