

Nesta...

THE NEW ART OF FINANCE

MAKING MONEY
WORK HARDER
FOR THE ARTS

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Nesta...

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INTRODUCTION AND SUMMARY

Over the last five years, arts budgets have come under severe pressure. Spending cuts have hit the major national public funders, while local councils have often been forced to reduce their financial support of the arts, partly to preserve funding for statutory services. In some cases this has had devastating consequences for arts organisations. In this short report, we show how a portion of arts funding could be reinvented, making use of new methods that would bring in additional finance into the arts, as well as having other benefits such as making arts organisations better connected to their audiences.

Although the arts are increasingly interwoven with our economy,¹ the ways in which they are funded in the UK have remained strikingly simple over the years. For instance, the best available estimates show that in 2012–13 the income received by the main organisations Arts Council England (ACE) funds consisted roughly of 40 per cent subsidy, 50 per cent earned income and 10 per cent contributions, including philanthropy. These figures are not greatly different from those from 2008–9 at the outset of the recession.² Overall, earned income has increased by only a few percentage points.³ The ways in which arts organisations receive money no longer look adequate or sufficiently sustainable.

Compelling arguments have been made to maintain levels of public funding for the arts. But this has sometimes been at the expense of exploring new ways of making public money work harder, or indeed helping arts organisations to explore completely new sources of funding.

This report asks what can be done to increase innovation in funding for the arts and what role public funders might play in encouraging this. It draws on experience gained from areas like social finance, which has seen an explosion of new financing models – something that has in many cases enabled it to become more sustainable and less reliant on the decisions of individual funders. It also highlights how digital technologies offer arts organisations opportunities to revisit their operating models, just as new technologies have disrupted business models in the wider creative industries.

We highlight three areas where attention is particularly urgent, and propose solutions:

1. More investment in Research and Development (R&D)

In other sectors, there is a tradition of public funding to support risky R&D activities that generate socially valuable insights. Arguably, general arts funding in the UK, as long as it is maintained at healthy levels, supports R&D geared at art-form innovations. It's what the arts 'do'. But R&D funding for organisations to explore new models of audience engagement, operating models or new missions which may give rise to new forms of cultural value, is lacking. There are potentially very big payoffs to the UK from this kind of funding, just as there are to R&D in other fields.⁴ Arts organisations need to invest in R&D. The state should fund and incentivise them to do so, as it does in other sectors.⁵

2. Venture funding for the arts helped by new accelerators

In the last decade, we have seen a raft of new social ventures in the UK thanks to progress made in social enterprise investment, with new banks, investment funds and asset classes emerging to fill the space between purely commercial and purely non-commercial activities. Arts organisations could also benefit from engaging investors who want to combine financial, social and artistic impact. But this requires them to reassess their business strategies to place a more explicit emphasis on investment, impact and measurement. We argue for pilot funding for accelerators to develop the most promising ideas into new ventures, and for venture funds to provide investment. Both of these measures will help to bring new money into the sector.

3. Supporting crowdfunding to match public funds

Online crowdfunding platforms now connect large numbers of small-scale ‘investors’ – members of the public – to new projects or ventures. Their explosive growth in the last few years demonstrates their popularity with audiences and backers, and the arts are already benefiting from this development. Funders can help to grow these benefits including making grants conditional on matched funding from crowdfunding platforms. This would be a good way of mobilising new money into the arts.

These three funding models would enable the arts to leverage additional funds from new sources, such as private investors.

With this goal in mind, we suggest that funders, such as the Arts Councils, local authorities and the DCMS, should allocate a share of their current grant funding towards public R&D,⁶ equivalent to at least 1 per cent of their overall spend (which is roughly £6 million per year in the case of ACE). The larger funders should also commit resources to piloting venture funding, accelerator and crowdfunding activities (ACE is already beginning to do this).

Developing these new approaches to funding, which have the potential to bring in significant new resources for the arts, should help the DCMS, ACE and others in the future make the case for additional funding, by showing how each pound invested can achieve a greater impact. And in the long run a more diverse and developed funding ecology will help the arts to grow and thrive even through periods of austerity.

The figures achieved should be closely monitored, but we could reasonably expect at least £1 of additional money to be raised for each £1 allocated, with this rising over the next three years to at least £2. Consider if funders were to ringfence, say, £10 million each year, to pilot venture funding, accelerator and crowdfunding schemes. Combined with an ACE contribution of £6 million towards public R&D activities, this would alone imply up to £72 million in additional funding for the arts.

1. CURRENT METHODS OF ARTS FUNDING

From Shakespeare to Picasso, creative geniuses have been as adept at making money as they were at making great art. But the most challenging arts have often depended on subsidy, whether from individual patrons or public agencies. This subsidised core overlaps with, and feeds into, much more commercial markets where we buy books, films, games and pictures.⁷ There are often complex pathways linking a grant or bursary to what ultimately becomes a hit. But funding for the arts has tended to be much less complex than the creative economy it supports. Instead, the arts depend on four distinct types of funding:

- **Grants** – from public bodies like ACE, Creative Scotland and the Arts Council of Wales (ACW).
- **Earned income** – from ticket sales or retail.
- **Philanthropy** – (including giving and trusts and foundations) and corporate sponsorship.
- **Investment** – equity or loans, which is then repaid through the profits made on earned income.

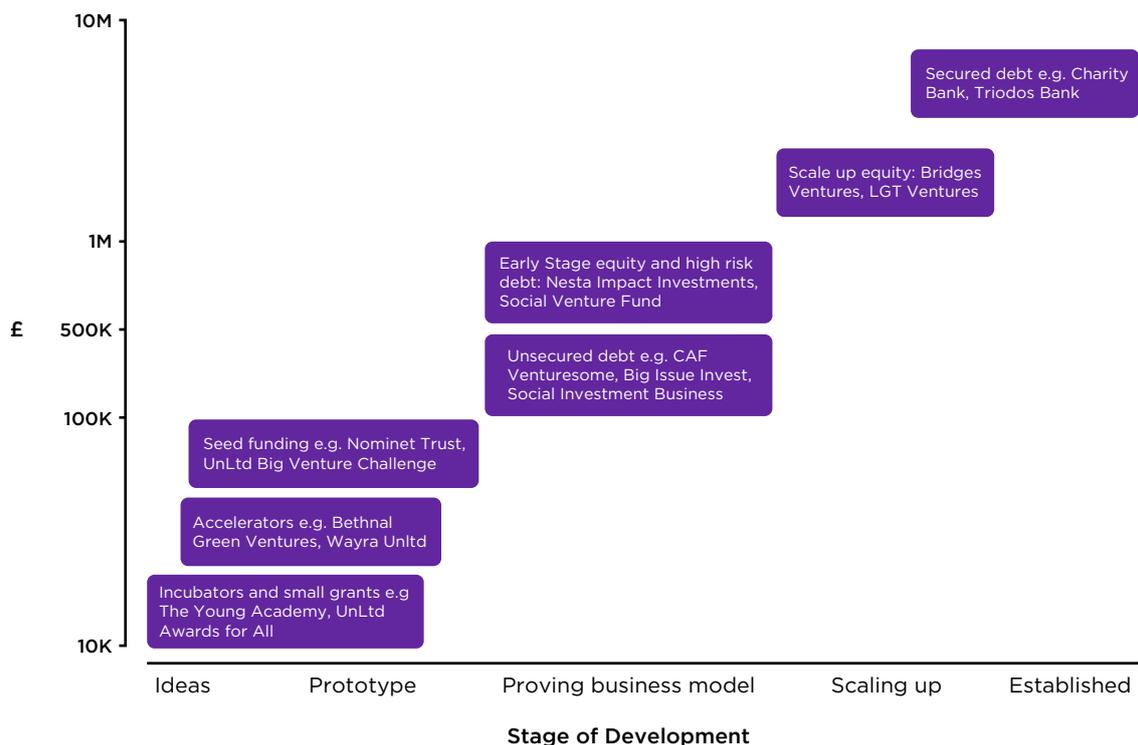
The last of these – investment – is considered normal in all commercial markets, but is much rarer in subsidised arts organisations.⁸

All four types of funding continue to have their place. But we believe that the forms of finance available to the arts need to be adapted and extended if the next few years are not to be experienced as times of retreat and lost opportunity.

The Evolution of Social Investment

Ten years ago, the arts field looked set to innovate in finance, and there was lively discussion about new tools to bridge the gap between pure subsidy and commercial successes.⁹ But instead of prospering in the arts, innovative finance has developed more in sectors that support other types of social enterprise. For instance, there are now funds for organisations to prove their concepts through social venture intermediaries, providing a mix of investment and advice. Big charities are issuing their own bonds. And there is venture philanthropy, social investment, the Grants Plus model and a well-capitalised wholesale bank (Big Society Capital), as well as accelerators, social impact bonds and hybrids of loan and equity. The following diagram shows the range of support now available in the social enterprise sector at different stages of a social venture's development:

THE UK SOCIAL FINANCE LANDSCAPE - A MODEL



The social sector has shown that it's possible to turn the prospect of earned income into investment to help organisations grow and thrive, while reducing their dependence on grants. Yet there is no serious equivalent for the subsidised arts, despite the clear lesson from the commercial arts that successful performances, exhibitions and other art projects can create more obviously investible successes.¹⁰

In response to the challenges faced by the arts we need new methods of funding; ones that tap new sources of finance, and make what money there is go further.

There is a need for a more sophisticated arts funding ecology that can help organisations meet their goals at each of the stages through which ideas and projects evolve. Public funders of the arts have a key role to play in this evolution. We have identified three types of funding where funders can catalyse significant change. These are ready to be developed rapidly in the face of urgent financial need in the arts. We outline them in the following chapters.

2. WHY WE NEED PUBLIC R&D FUNDING FOR THE ARTS

The arts innovate constantly, generating new forms of artistic expression and cultural experience. This is a form of R&D that comes naturally to many arts organisations. Even with funding cuts, this type of R&D is arguably well supported by general arts funding in the UK.

But Nesta has highlighted that innovation in arts organisations can also be directed in other dimensions, towards expanding audience reach, developing new ways of generating revenue and in some cases evolving the mission of arts organisations.¹¹ Currently, there is very little public funding for organisations to do this.

Nesta in partnership with ACE, Creative Scotland, ACW and the Arts and Humanities Research Council (AHRC) has been working to show how R&D could be developed further in the arts. We've set up funds bringing arts and cultural organisations, technology providers and research teams together to trial new uses of digital technologies. This helps organisations engage with audiences in new ways, as well as test prospective business models. The main focus of these funds is a specific issue: the relative failure of arts organisations to make the most of the opportunities provided by digital technologies.¹² But there are also plenty of other fields unrelated to digital technologies where R&D funds of this kind could work.

Case study: LSO Pulse

The LSO Pulse project, supported by the Digital R&D Fund for the Arts, is a mobile marketing and ticketing solution set up to engage hard-to-reach audiences. Designed initially for the London Symphony Orchestra and the Aurora Orchestra, its aim is to provide an experience-rich, smooth and barrier-free method of accessing information and tickets, primarily through a mobile app called Pulse.

Experience has repeatedly shown that audiences for classical music events are primarily educated and middle-class. As a result, university students living in and around London are a prime future market for the classical music industry and – during the first phase of the research – were identified as the target audience for Pulse.

By using the app to sell 82 per cent of unsold tickets at a discounted price over a period of six months, Pulse proved itself as an innovative sales tool. Currently it is being used by ten London orchestras and venues. The research and development work at the beginning of the project not only gave it a greater chance of becoming a success but, having since been published, it also offers invaluable insights to other arts organisations.¹³

How R&D funding differs from traditional grants

R&D funding is different from traditional public grants in the following ways:

- There is a greater appetite for backing high-risk, high-potential projects.
- Funded projects are treated as experiments, with clear testable propositions and research questions.
- Results – good or bad – from the funded projects are made public.
- Project timescales are generally shorter than traditional, academic research projects.
- Funders of R&D are required to understand potential opportunities for different types of innovation in the arts, as well as where any gaps are, which ultimately helps them to make better funding decisions.

Targeted public R&D is a cost-effective way that funders can get ‘more for less’. Funding public experimentation in the arts makes money go further since the published results benefit the whole sector rather than just a few organisations.¹⁴

Case study: Royal Opera House

The Royal Opera House developed and tested a new hybrid mobile app which allows audiences to access exclusive digital content, whether they watch a live production at the Opera House in Covent Garden or in a cinema in Brazil. Before the live performance, audiences are encouraged to purchase tickets, buy and download a digital programme guide or donate to the organisation via their mobile phone.



The project resulted in a disappointingly low number of donations and a small but growing number of digital programme guide purchases, but a rapidly growing increase in international ticket sales.

These results provide valuable information for any arts organisation intending to develop purchases or donations by smartphone. In addition, the project has also generated pioneering open source technology which will reduce the cost to other arts organisations of building mobile-friendly services.

Thanks to the fact this is a public R&D project, all the information and insights gained during this process are being published on the Digital R&D Fund's website, Native, in a way that can benefit the arts as a whole.¹⁵

By putting an emphasis on experimentation, R&D funding supports riskier, more innovative projects. Risk is often used as a justification for not spending public money. The nature of R&D is that some projects won't work. But by supporting projects that have clear research questions, public R&D funding ensures that even those projects that fail to meet their intended goals still produce valuable knowledge and insights from which others can learn. It also encourages greater honesty over what is successful and what isn't.

Case study: Punchdrunk

Tickets for immersive theatre company Punchdrunk's shows usually sell out, meaning that many people who want to go and see them can't. Because of this, they are a natural candidate for live digital distribution. However, their shows rely heavily on interaction with audience members (Punchdrunk describes them as 'unrecordable').

To maintain the essence of their work, the company tested a new theatrical form – one that mixed live performance with online experiences. However, the fusion of interactive theatre and the online world was less seamless than might have been expected. Many of the online participants felt lost and disconnected. The process seemed remote and abrupt. This was in part due to the difficulty of simulating the experience of the real-world audience who are usually prepared before the performance for the ritualistic nature of the event.

However, finding out what doesn't work is sometimes as important as establishing what does. Working with a team of researchers from the Universities of Dundee, the West of England and MIT Media Lab, Punchdrunk published the findings from the project, along with practical recommendations for other arts organisations aspiring to merge online and live performances. This will help them and others to develop work with a greater chance of success in the future.¹⁶

With the Digital R&D Fund having now closed its doors for applications there is no dedicated funding in the UK for the type of public R&D we describe. This is despite the fact that research shows that the greatest barrier arts organisations face in carrying out digital experimentation is a lack of finance,¹⁷ the pace of digital technology innovation is speeding up and audiences are evermore connected to the internet.

Recommendations

- Public arts funders need to support systematic R&D to help arts organisations explore new ways of engaging the public, new forms of business model and mission.¹⁸ In line with R&D spend in the economy more widely, arts organisations should look to spend at least 1 per cent of their revenue on it, and funders, like ACE, should allocate at least 1 per cent of their money towards funding it.¹⁹
- The results of publicly funded experiments should be made available to all, with any technology developed as part of this made open source where possible.
- Funders should consider how to support the development of the skills that arts organisations need to undertake R&D.

3. VENTURE FUNDING AND ACCELERATORS: HELPING TO TURN ARTS IDEAS INTO SUSTAINABLE VENTURES

Once an arts organisation has created a good idea, either off its own bat or through the support of a programme such as the Digital R&D Fund, it may have the potential to be scaled up and invested in.

However, the current funding models of subsidy, earned income and philanthropy don't always allow this to happen. The report *Capital Matters*²⁰ made a compelling case for a better capitalised arts sector, but since it was published nearly three years ago, not enough has happened to achieve this.

In this chapter we propose three linked solutions:

- Adapting grants contracts so that they can be converted into equity or loans when a profitable product results.
- Support for arts accelerators to help get ideas off the ground successfully.
- Support for arts venture or impact funds which can provide capital for more developed ideas and for existing arts organisations to help them grow and achieve impact.

Grant contracts with the option of conversion into investment

It's only right that the majority of grants are just grants: providing funds to support an organisation or particular activity.²¹ But sometimes cultural organisations develop products or outputs that have a substantial commercial potential. We think that in these cases there is a good argument that public funding should be turned into an investment, so that some of the revenues can flow back into new grants.

Nesta has in recent years experimented with grants of this kind in its work. These include:

- Profit-sharing arrangements where the profits, over an agreed level, of a production, book, film or piece of software are shared with the funder.
- Grants converting into loans once a certain level of revenue is achieved.
- Grants converting into equity when there is a suitable vehicle (i.e. a private or community interest company).

We advocate greater use of tools of this kind for activities which fall between the purely subsidised arts and the commercial creative industries. Some grants can already be adapted to commercial success. However, that usually means reducing grants as commercial income increases, which can penalise success. The alternative of converting parts of grants into equity or loans may be preferable in ensuring that the benefits of success are shared.

Accelerators

Larger arts organisations often set up commercial subsidiaries as vehicles to launch a variety of commercial activities. But it is rare for people working in charitable arts organisations to launch entirely new ventures in a way that enables third-party investment. The barriers can include restrictions on making a financial profit, an organisation's corporate make-up, its appetite for risk, a lack of commercial enterprise skills, or even the time and capacity to develop a new venture. Too often, the only way to get a good idea in front of audiences or to scale up a success is to return to grant funding.

Accelerator programmes, which first emerged in the technology sector, but recently extended to launch new social enterprises, can provide a solution to this problem. Traditionally, these have been purely commercially led. That is, they bring people together to work on new commercially-focussed ideas, provide mentors to help test these ideas, and broker relationships with potential investors in exchange for equity. The whole process takes place over a short and intense time period, for example 12 weeks in a single location. Well-known examples of accelerators include Y Combinator and Techstars in the internet field. Socially-oriented accelerators include Bethnal Green Ventures, of which Nesta is a partner.²²

While there are accelerator-type initiatives for creative industry businesses in the UK – such as the ACE-backed MeWe programme²³ – there isn't currently an accelerator for the arts in the UK, despite the fact they seem to be working well in other areas. Yet arts organisations are able to make a profit in a way that could make them more appealing to investors than organisations in the social sector.²⁴

CultureLabel has recently proposed setting up an accelerator for the arts.²⁵ This would see either new or existing organisations with ideas for new ventures brought together with technologists, mentors and potential investors. Crucially, it would allow entrepreneurs from outside existing arts organisations to get involved.

An alternative model would, like technology accelerators, focus just on startups, providing help until ventures reach a point where they can raise commercial investment.

There are also programmes that we wouldn't necessarily call accelerators, but that work in a similar way, such as The Accelerator Academy.²⁶ It charges participants to attend and takes them through a curriculum over a defined period of time, giving them space, advice, guidance and intensive mentoring to bring new ideas to market.

The collaborative spaces that incubate new arts ventures are also increasingly important. NEW INC in New York offers a co-working space for 100 creative people working at the cutting edge of art, technology and design.²⁷

In the UK, the Barbican and workspace innovators, The Trampery have joined forces to create Fish Island Labs, a new space to support emerging talent working with technology and the arts. In common with technology incubators, this will include business mentors and advice from successful entrepreneurs.²⁸

Since accelerator programmes have seen rapid growth in other sectors but are still relatively new, we believe that there is a need to experiment with several different models in the arts; some focussing on existing organisations, some on startups, others on both.

What kind of ideas could an accelerator for the arts support?

Investors are beginning to invest in new arts ventures. Culture/technology startup Paddle8 (an online auction site) has attracted series B investment of US \$6 million from a range of investors, including Jay Jopling and Damian Hirst.²⁹ In the UK, Digital Theatre has received £750,000 investment from Ingenious Media.³⁰ These are arts ventures benefiting the wider sector by proving new revenue streams and testing new ways to enable audiences to experience great art.

But these types of investments are rare and when they do happen, they are focused on startups rather than spin-out ventures from traditional art organisations. Many great ideas that originate within existing arts organisations never find their way to market.

And yet, several of the projects that are being supported by the Digital R&D Fund, for example, show potential for commercial investment to provide new returns for the organisations that develop them.

Case study: Qualia

The Digital R&D Fund has supported Qualia, a sentiment analysis app, which aims to revolutionise the way audience experiences are evaluated at arts events by giving organisers live, dynamic feedback. There is scope for Qualia's creators to develop it and license it to other organisations. However, there is not currently an avenue for Qualia to obtain investment to take it to market. While its creators are missing out on revenue, potential customers are missing out on a useful new product. An accelerator programme followed by venture funding could help to solve this problem.

Establishing arts venture and impact funds

If accelerators are designed to create a pipeline of promising ventures, the next challenge is to provide capital for the stage which comes after that: turning ventures into sustainable businesses. This includes ideas that emerge from existing arts organisations.

In social investment a large number of impact venture funds have been set up in recent years, some aiming to achieve near commercial returns, others with a greater emphasis on philanthropy. These provide backing for ideas that have already started to prove themselves and need to scale or existing organisations who want to grow, providing sums between £100,000 and a few million pounds in the forms of grants, loans and equity to turn them into sustainable businesses.

We believe the arts should experiment with similar models, combining financial goals (profitability) and non-financial goals (artistic worth and social impact).

We have identified cohorts of arts organisations that have been entrepreneurial and considered how they might adopt different business models to help build resilience by:

- Not being reliant on one big funding organisation.
- Building up surpluses and/or reserves on their balance sheets.
- Acquiring fixed assets, like buildings, that help them access bank finance.

A commercial lender wouldn't necessarily fund these organisations as the returns wouldn't be big enough to reflect the risk. But an impact fund for the arts, supported initially by public funders and foundations like Esmée Fairburn who currently grant-fund arts-based organisations, could be investing in these by providing debt and quasi-equity support, as well as trialling new forms of funding such as hybrids of grant and equity.

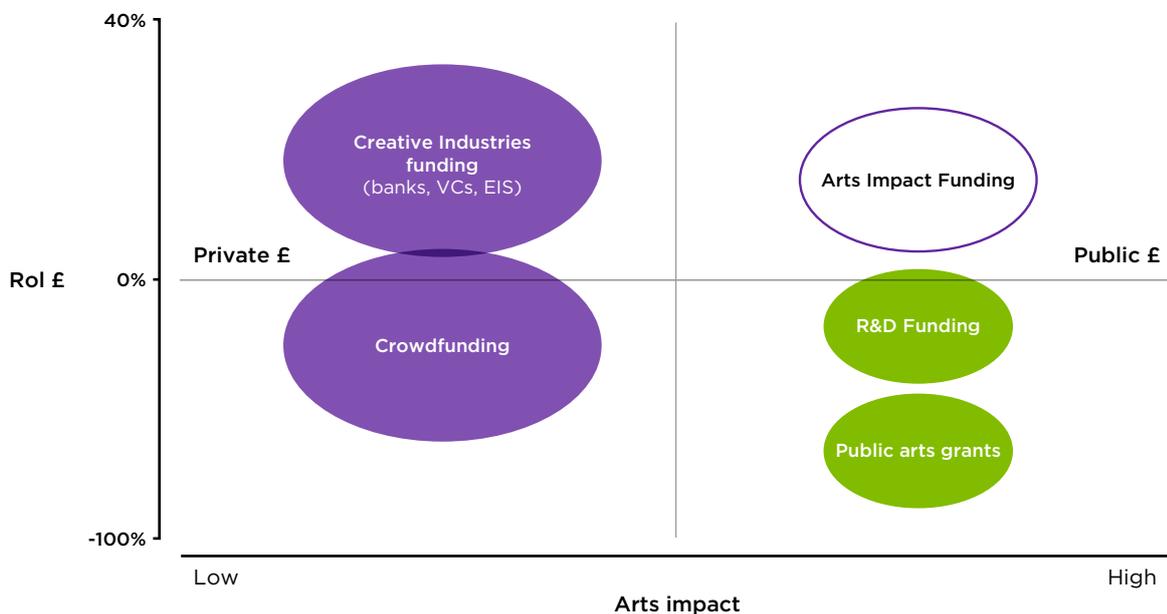
Case study: Theatr Genedlaethol Cymru

Only 19 per cent of people in Wales speak Welsh – something that can make it difficult for theatre companies producing work in this language to attract potential audiences. As a response to this, Theatr Genedlaethol Cymru and Galactig have developed an app called Sibrwd that provides descriptive audio clips and a synopsis of a performance in the audience members' native language. It is hoped that this will allow theatregoers to follow and better understand performances in other languages. This is the kind of product that, if successful in Wales, could be developed internationally with the help of investment through an Arts Impact Fund. It would enable global audiences to enjoy performances from a much greater range of international organisations.



For these types of arts project, which may have shown early success with audiences and the potential for further development, an Arts Impact Fund could make a significant difference. The diagram below illustrates how such funds could fill a gap in the current arts funding landscape:

WHERE THE ARTS IMPACT FUND SITS IN THE FUNDING LANDSCAPE



Measuring the impact of investment

The first priority for any Arts Impact Fund is to ensure the right people and processes are in place to generate a stream of investible propositions that have a good chance of returning the capital invested with a surplus. This requires networks and outreach, a team with a strong track record in investment and the capacity to support projects as they evolve.³¹

In parallel, the fund needs to define what kinds of impact it wants to achieve. We suggest that this should be a combination of financial, social and artistic goals. The first two are perhaps more straightforward, but the third – artistic impact – is likely to be the hardest to measure. Organisations including ACE and Nesta, and the Arts Venture Fund steering group chaired by Tim Joss, have been working on developing better ways of determining this. A number of initiatives in the broader area of measuring the value of culture are also underway that may provide useful insights.³²

Nesta currently manages an £18 million Impact Investment Fund which provides some pointers to how an Arts Impact Fund might work. This fund focuses on young people, an ageing population and strengthening communities. It makes investments based not just on financial return, but also on social outcomes. It assesses potential investments by using a five-level framework for impact, The Standards of Evidence for Impact Investing:

- **Level 1: Account of impact** – this means a potential investee can clearly say what a product or service does in a logical, coherent and convincing way, as well as why the product or service may have a positive impact on one of the desired outcomes.
- **Level 2: Correlation** – at this stage some data is being collected which shows a positive impact on the users of the product or service, although it is not confirmed that the investment caused this.
- **Level 3: Causation** – here we expect to show that the positive change among the users of the product or service is happening because of the product or service.
- **Level 4: Independent replication** – the claims behind a product or service will have been validated, for instance through an independently conducted evaluation. We would also expect to see that the product or service can deliver its positive impact at a reasonable cost.
- **Level 5: Scaled** – to reach this point it is clear that the product or service can be operated by someone else, somewhere else and on a large scale, while continuing to have positive and direct impact on the desired outcome, while remaining a financially viable proposition.

While other organisations assess projects using definitions such as ‘broad social good’, Nesta’s approach involves more rigorous measurement. Many impact investors only count outputs, for instance the numbers of people taking part in a project. That, in our view, is not enough. We believe evidence is needed that supports the attribution of the effect (i.e. that the people taking part in a project value it, and are benefiting from it). This allows for a fairer and more transparent selection process, as well as a greater chance of supporting projects that are successful in a way that de-risks the investment.

Case study: Movellas

Movellas is an online story-sharing community that helps teenagers to do creative writing, which we have invested in through Nesta Impact Investments. Movellas aims to improve literary levels and we intend to measure, over a three-year period, the improvement in users' writing skills against national standards. We are proposing to use control groups and other methods to try and isolate what effects can be attributed solely to the website (rather than other influences).

Venture funding (including impact funds and accelerators) is an area that the arts could benefit from. It could help generate more funding and make what public funding there is go further, as well as give promising ideas – from both outside and within existing arts organisations – the follow-on funding they need to grow and scale, reducing their dependency on grants.

Recommendations

- Greater use of grants that have the option of being converted into profit shares, loans or equity.
- Funding pilots for a small number of accelerators for the arts applying lessons learned from other fields, including commercial and social enterprise accelerators.
- The trialling of different venture fund models, leading through to the creation of larger funds combining different types of investment.³³
- Further research into developing impact criteria for prospective arts venture funds, drawing on Nesta's Standards of Evidence for Impact Investing and ongoing research on measuring cultural value.
- Further research to identify the types of organisations that prospective arts venture funds and accelerators could usefully support.
- Intensive assessment of what works in each case, including use of control groups and tracking all the ventures that apply over time, comparing the 'near winners' and 'near losers'.

4. CROWDFUNDING FOR THE ARTS

Crowdfunding is in some respects a very old form of finance, used to fund museums and galleries in the past, as well as the building of churches and mosques. It's a simple idea: if many people contribute small amounts, even costly projects can happen. The other benefit of crowdfunding is that if people contribute financially to getting something done, they'll then feel more engaged with and committed to it.

What's new is the role the internet plays in mobilising people quickly and easily. A number of platforms have shot up, such as Kickstarter and Indiegogo in the US and Crowdcube and Crowdfunder in the UK. Many of the newer crowdfunding platforms have an explicit focus on the creative industries,³⁴ allowing thousands of individuals to directly fund projects and businesses.

The figures are big. More than \$2.7 billion was raised through crowdfunding globally in 2012, and during 2013 approximately £360 million was raised in the UK.³⁵

Crowdfunding models

Although the number of crowdfunding models is increasing, the four most prevalent types are:

- **Donation:** The organisation or individual creating a project doesn't offer anything to those donating money. It works because people believe in causes, for instance, those championed by charities and their work.
- **Reward:** Those donating money for a project get something back in return, for instance, a chance to meet an artistic director, to be named in a programme or receive a ticket to a show (essentially pre-purchase). The benefit to the fundraiser is that they can offer rewards that cost them little, but are valued highly by backers.
- **Lending:** A company or individual borrows from a large number of small lenders and repays them at a later date, usually – though not always – with interest.
- **Equity:** This model, where individuals receive a small share in a business or project in return for funding, is growing quickly in the UK through sites like Crowdcube and Seedrs. Funders do not usually receive any dividends but instead make a capital gain when at a later date someone buys their shares. Some arts organisations have implemented an equity model based on revenue- or profit-sharing, such as the makers of the film *Age of Stupid*.³⁶ Other sites have begun experimenting with bonds³⁷ and convertible loans.³⁸

As well as tapping into public enthusiasm for the arts, crowdfunding effectively turns audiences paying for tickets into investors. It can also be used to make public grant money go further, through matched funding. Grant-funding organisations are just beginning to experiment with awarding public money matched to whatever amount organisations and individuals can raise themselves.³⁹ Used in this way, crowdfunding may offer a more democratic way for arts funding organisations to select what to fund.

Case study: Arts Tasmania

In 2014, the Tasmanian government's arts funding, policy and advice body, Arts Tasmania, is partnering with crowdfunding platform, Pozible, to offer approved fundraising campaigns an additional investment of up to 50 per cent of their successfully raised crowdfunding target (capped at \$2,000 per project). This experiment in matched funding allows the arts organisations taking part, and the funder, to test whether there is a market for their ideas, as well as grow their audience and extend their support base.

Potential benefits of matched-funded crowdfunding

The financial support provided by crowdfunding could in principle help get a broader, more diverse range of artistic projects off the ground, benefiting both audiences and new artistic talent. Crucially, as well as increasing the variety of what gets funded, matched funding could also leverage significant amounts of private investment and make public funds go further, thereby increasing the amount of funding entering the arts overall.

Crowdfunding could also help with reducing the costs of administering grants, in particular small grants. Using crowdfunding as a mechanism for selecting which projects have potential could allow public funders to cut their operating costs and funnel more money towards projects. Organisations such as CrowdCulture in Sweden have already been experimenting with how crowdfunding can be used to distribute public funding.⁴⁰ Engaging with consumers of the arts through crowdfunding will also help arts organisation build stronger networks and get a better sense of what projects are valued by audiences.

Challenges in matched-funded crowdfunding

Matched-funded crowdfunding has the potential to make grants for the arts go further, with public funders matching whatever is raised by 'the crowd'. There are, however, significant design challenges. Questions such as how much matched funding to offer and whether an arts funder should put their money in first or be the top-up funder need to be addressed.

Another issue is that crowdfunding necessarily favours those who have networks of individuals with money to contribute, and those who are technologically more savvy. It is therefore important to consider how matched funding would impact on how fairly distributed is public funding.

Crowdfunding also tends to favour more populist projects, insofar as they require the support of a significant number of people to be successfully funded.⁴¹ This raises questions about how riskier, less immediately popular projects might be supported.

All these challenges should have potential solutions, for example if public funders offered different levels of matched funding for different projects, but evidence of what works best is lacking. We propose that public and charitable arts funders research and experiment with different formulae to develop models that help rather than hinder fair access to arts funding in the UK.

Case study: The Singh Project

Photographers Amit and Naroop used Kickstarter to raise funding for their exhibition, The SINGH Project, a collection of 35 photographs celebrating the identity of British Sikh men.⁴²

More than 140 backers committed over £8,000 to put on the exhibition, with rewards including signed prints of a photograph from the show. The money was used to print the 35 images from the project, hire out an exhibition space, print high-quality booklets and hold a private view event to showcase the exhibition.



Recommendations

- Public and charitable arts-funding bodies, along with prospective partners, should pilot different models of matched-funded crowdfunding.
- Nesta and partners should undertake research into how the arts can best use crowdfunding models.
- Crowdfunding as a way of venture financing and revenue sharing should be explored, in order to help arts organisations accumulate surpluses.

5. CONCLUSIONS

Many of the funding methods highlighted in this publication will be relatively new to the arts. They should be understood as complements to existing forms of funding, not replacements. But against a background of financial constraint they're becoming more important. Piloting them, improving them and scaling up those models that are successful will matter ever more over the next few years.

What these new types of funding share in common is the ability to make money work harder. We already know that funding for R&D and innovation generates new ideas that whole sectors can use; indeed most of the gains are likely to create benefits that are beyond the innovators themselves (as in business where it is sometimes said that 98 per cent of the value of innovations goes to other companies or consumers). Investment funds make it possible for public funders to recycle money, and crowdfunding taps into otherwise unexploited enthusiasms.

Public arts spending in the UK comes from ACE and its equivalents in Scotland, Wales and Northern Ireland, along with local authorities and bodies such as the DCMS, AHRC, British Film Institute (BFI), Nesta and a few others. ACE is much the biggest single institution of these with spend in 2011-12 (including Lottery funding) of around £625 million.⁴³

In line with R&D spend in the economy more widely, arts organisations should look to spend at least 1 per cent of their revenue on it, and funders should allocate at least 1 per cent of their money towards funding it (for ACE this would be the equivalent to just over £6 million per year). In addition, larger funders – public and private alike – should support pilots of the new funding models outlined in this report (ACE is beginning to do this).

The figures achieved should be closely monitored, but we could reasonably expect at least £1 of additional money to be raised for each £1 allocated, with this rising over the next three years to at least £2. Consider if funders were to ringfence, say, £10 million each year to pilot venture funding, accelerator and crowdfunding schemes. Combined with an ACE contribution of £6 million towards public R&D activities, this would alone imply up to £72 million in additional funding for the arts.⁴⁴

Summary of recommendations for public arts funders

- Public arts funders commit to a target of spending at least 1 per cent of their overall budget on R&D by arts organisations towards expanding audience reach, exploring new business models and mission.
- The larger funders – public and private alike – to pilot venture fund, accelerator and matched-funded crowdfunding models.

A new funding landscape would result in:

- Systematic R&D being carried out aimed at arts innovation in all its forms.
- New accelerator models to help arts startups and ventures coming from existing organisations.
- Investment fund models to take startups and existing arts ventures to the next stage, by combining financial, social and arts impacts.
- Experience in using public money to match funds for the arts raised through crowdfunding platforms.

Guiding principles for all these interventions would be openness, measurement and careful evaluation of success, including how much additional money is brought into the arts, to pave the way for potentially larger funds. Given this, we also propose that Nesta works with partners in further researching the development of financial, artistic and social impact criteria for prospective arts venture funds.

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We would like to thank Martin Brookes, John Kampfner and Nick Starr for the helpful comments on an earlier draft of this report.

ENDNOTES

1. Arts Council England (2013) 'The contribution of the arts and culture to the national economy.' London: Centre for Economic Business Research. See: http://www.artscouncil.org.uk/media/uploads/pdf/CEBR_economic_report_web_version_0513.pdf. See also The Work Foundation and NESTA (2007) 'Staying Ahead: the economic performance of the UK's creative industries.' London: NESTA and The Work Foundation. <http://www.theworkfoundation.com/Reports/176/Staying-Ahead-The-economic-performance-of-the-UK39s-creative-industries-overview>
2. These figures, kindly provided by ACE, are based on a common sample of 562 organisations that were in receipt of Arts Council Regular funding in 2008-9 and 2012-13. 'Subsidy' includes Regular funding, Lottery funding, Local Authority funding and other Public funding; Earned income includes Core activity, Educational and Supplementary income, and Contributed income includes Sponsorship, Trust, Donations and Philanthropic income. The income breakdown can vary greatly between individual organisations.
3. The share of Earned income in all income for the sample of 562 organisations increased from 47.7 per cent to 50.5 per cent between 2008-9 and 2012-13.
4. The Digital Culture longitudinal study, supported by ACE, the AHRC and Nesta, on how arts and cultural organisations are using digital technologies shows that organisations experiencing the biggest positive impacts from digital technology are those who engage in more experimentation and R&D activity. Digital R&D Fund (2013) 'Digital Culture - How arts and cultural organisations in England use technology.' London: Digital R&D Fund for the Arts. See: <http://native.artsdigitalrnd.org.uk/digitalcultureresearch/> page 49.
5. Bakhshi, H., Desai, R. and Freeman, A. (2009) 'Not Rocket Science: A Roadmap for Arts and Cultural R&D.' Mission Models Money. See: <http://www.missionmodelsmoney.org.uk/resource/not-rocket-science-2010>
6. Bakhshi, H., Hargreaves, I. and Mateos-Garcia, J. (2013) 'A Manifesto for the Creative Economy.' London: Nesta. See: <http://www.nesta.org.uk/publications/manifesto-creative-economy>
7. See e.g., Albert, A., Bakhshi, H., Mitchell, S. and Smithies, R. (2013) 'Publicly-funded arts as an R&D lab for the creative industries? A survey of theatre careers in the UK.' London: Creative & Cultural Skills, Arts Council England and Nesta. See: http://blueprintfiles.s3.amazonaws.com/1370851494-A_Survey_Of_Theatre_Careers.pdf
8. Mission Models Money (2011) 'Capital Matters: How to build financial resilience in the UK's arts and cultural sector.' See: <http://www.missionmodelsmoney.org.uk/programme/capital-matters>
9. See e.g., Mission Models Money (2007) 'Towards a healthy ecology of arts and culture.' See: <http://www.missionmodelsmoney.org.uk/sites/default/files/Towards-a-Healthy-Ecology-of-Arts-and-Culture.pdf> and Mission Models Money (2007) 'New and alternative financial instruments.' See: http://www.missionmodelsmoney.org.uk/sites/default/files/24539365-New-Alternative-Financial-Instruments-Master-Report-Inc-Case-Studies-MMM-2007_0.pdf. See also the useful literature review by Curtis, E., Nelson, S. and Engel, A. (2010) 'Literature review on capitalization.' Seattle WA: Grantmakers in the Arts National Capitalization Project. See: http://www.giarts.org/sites/default/files/capitalization-project_literature-review.pdf
10. This is notwithstanding the fact that the nature of the risks involved in some subsidised arts activities are such that they will not attract investment finance in any form.
11. Bakhshi, H. and Throsby, D. (2010) 'Culture of Innovation: an economic analysis of innovation in arts and culture organisations.' London: NESTA. See: <http://www.nesta.org.uk/publications/culture-innovation>
12. Digital R&D Fund for the Arts (2014) 'Native: Magazine of the Digital R&D Fund for the Arts.' London: Digital R&D Fund for the Arts. See: http://issuu.com/digitalrnd/docs/native_issue_1-isuu?e=12565220/8478002. The ACE-BBC patnership, The Space - a website that artists can use to engage the public in new commissions - supports digital innovation in artistic expression.
13. The report can be found at: http://www.artsdigitalrnd.org.uk/sites/default/files/case-study-documents/Digital_RandD_CaseStdy_StudentPulse.pdf
14. There are a number of different models for undertaking arts R&D, including the place-based models led by organisations such as Watershed Media in Bristol and the Knowledge Exchange Hubs led by the AHRC, with varying degrees of emphasis on knowledge sharing.
15. Learn more about the project at: <http://native.artsdigitalrnd.org.uk/projects/royal-opera-house/>
16. See: http://www.artsdigitalrnd.org.uk/sites/default/files/case-study-documents/Digital_RandD_CaseStdy_Punchdrunk.pdf
17. Digital R&D Fund for the Arts (2013) 'Digital Culture - How arts and cultural organisations in England use technology.' London: Digital R&D Fund for the Arts. See: <http://native.artsdigitalrnd.org.uk/digitalcultureresearch/>
18. This funding should build on relevant existing initiatives, such as ACE's investment in Cultural Commissioning - a partnership with the National Council of Voluntary Organisations, New Philanthropy Capital, Mission Models Money and the New Economics Foundation to build cultural institutions' capacity to win public service commissions in delivering social care, health and wellbeing outcomes.

19. This is roughly equivalent to the amount of money the UK spends on scientific and technological R&D as a percentage of gross output. A 1 per cent target is conservative when compared with, say, the 2.3 per cent and 3.2 per cent that the computer programming and consultancy and pharmaceuticals industries respectively spend on R&D as a percentage of their sales.
20. Mission Models Money (2011), op. cit.
21. See, for example, van der Ploeg, F. (2006) 'The making of cultural policy: a European perspective.' In Ginsburgh and Throsby, eds., 'Handbook of the Economics of Art and Culture.' Elsevier, edition 1, no.1, for a review of the arguments for public subsidy.
22. For more details of how accelerators work see: <http://www.nesta.org.uk/develop-your-skills/accelerators>
23. See: www.mewe360.com. This programme provides creative businesses with mentoring and networking support and potential access to venture capital investment.
24. Also, arguably, the ethical barriers to attracting private investment funds in the social sector (see Brookes (2014) Should there be limits to the realms of markets? 'Alliance.' Vol. 19, No. 2. www.alliancemagazine.org) are less pronounced in the arts sector, which has always been a mixed economy.
25. See: <http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2014/Cultural-innovation-and-entrepreneurship.pdf>
26. See: www.acceleratoracademy.com
27. See: <http://newinc.org/>
28. See: <http://www.barbican.org.uk/fishisland/>
29. See: <http://blogs.wsj.com/venturecapital/2013/06/06/with-damien-hirst-backing-paddle8-aims-to-do-for-fine-art-what-stubhub-does-for-tickets/>
30. See: <http://startups.co.uk/digital-theatre-receives-750000-investment-from-ingenious-ventures/>
31. This may include use of the services of the accelerators described earlier.
32. These include the AHRC's Cultural Value Project. See: <http://www.artscouncil.org.uk/news/arts-council-news/today-we-publish-understanding-value-and-impacts-c/>, the Warwick Commission on the Future of Cultural Value. See: <http://www2.warwick.ac.uk/research/warwickcommission/futureculture/> and ACE's research programme on the value and impact of cultural experiences. See: http://www.artscouncil.org.uk/media/uploads/pdf/Understanding_the_value_and_impacts_of_cultural_experiences.pdf
33. The trials should include a rigorous assessment of the additional impact the venture funds have – that is, whether or not they displace funding in the arts through other channels.
34. See: <http://culture360.asef.org/news/crowdsourced-funding-for-the-arts/>
35. See: <http://www.nesta.org.uk/publications/rise-future-finance>
36. See: www.spannerfilms.net/money_faq
37. See: <http://www.crowdcube.com/investment/chilango-the-burrito-bond-15934>
38. See: <https://crowdforangels.com/>
39. ACE has also funded DONATE, the National Funding Scheme's mobile giving platform for the cultural sector. In addition to connecting organisations and donors, the platform provides organisations with additional services such as case studies, statistical reports and workshops. See: <https://www.nationalfundingscheme.org/>
40. See: <http://crowdculture.se/se/projects/enjoysweden>
41. As with other sectors there are high-profile crowdfunding campaigns in the arts that have failed to meet their targets e.g., New York City Opera's Kickstarter campaign in 2013.
42. See: https://www.kickstarter.com/projects/205078810/the-singh-project?ref=home_popular
43. See: <http://www.artscouncil.org.uk/what-we-do2/advocacy/faqs/>
44. This assumes an additional £1 is raised in 2015–16 (1 X £16 million), £1.50 is raised in 2016–17 (1.50 X £16 million) and £2 is raised in 2017–18 (2 X £16 million) for every £1 of public money spent. This is described as 'up to' £72 million in additional funding because some of this money may displace existing funding in the arts.

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