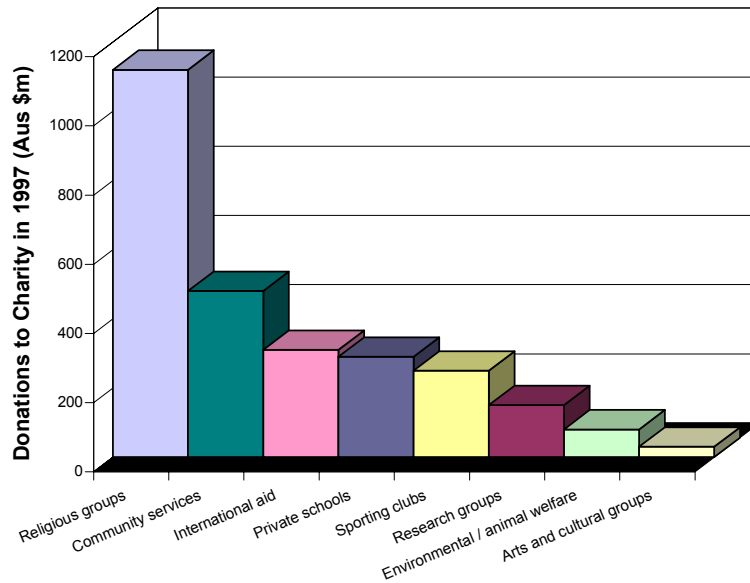


Australian Philanthropy and the Arts – How do we Compare ?

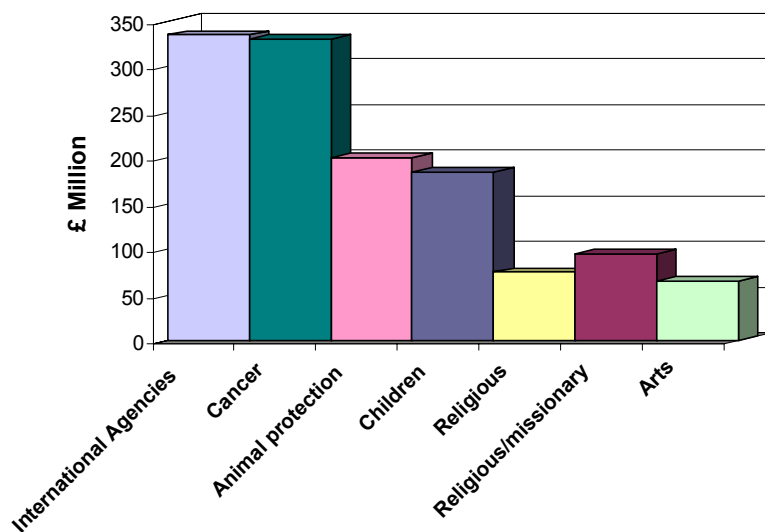
David Fishel, Positive Solutions

In 1997 an estimated \$2.8 billion (Australian; approximately \$1.4 billion US) was donated to third sector/nonprofit organisations in Australia. Religious causes dominate the pattern of giving. The arts share of the cake was a very small fraction of this and, perhaps unsurprisingly in the Australian context, sports fared considerably better:



Source: Australian Bureau of Statistics, and Mark Lyons, UTS, Sydney

Although the categories are slightly different, making direct comparison difficult, the following are recent figures of voluntary income for certain UK charity categories:



Source: CAF (Charities Aid Foundation) top 500 fundraising charities – voluntary income by sector, 1997-1998

While animals are marginally more favoured than children's causes in the UK, we should rush to no hasty conclusions about national characteristics and priorities.

The arts would appear to be doing comparatively well here (£65 million), and in fact showed the most dramatic growth rate in voluntary income of any category, up 164% in real terms during a four-year period to 1999. However, much of this is related to securing private sector funding to match National Lottery contributions to capital developments in the arts – undoubtedly valuable, but also short term, rather than a reflection of continuing philanthropic commitment to the arts in the UK.

Growth Predictions

In a number of Western countries (and possibly others), individual giving is expected to increase very significantly over the next decade or so – principally because of the huge transfer of wealth from the baby boomer generation. According to a recent article in *The Economist*¹, in the United States during the next half century inter-generational transfer of wealth is predicted to total \$41 trillion US, of which \$6 trillion is likely to be devoted to philanthropic purposes – this is projecting US economic growth at only 2% per year – the sums could be considerably larger. In Australia and other countries the impact of baby boomers being in a position to pass on their wealth will have similar, if more modest, impacts.

In the next 10 years an estimated \$600 billion Australian (c.\$300 billion US) in family business assets will be handed over to younger generations with the deaths of those who built Australia's post-war wealth. The baby boomers, inheritors of this legacy, are bigger spenders than their parents – and many are seeking meaning through association with environmental and other good causes. This represents a significant opportunity for all those in the nonprofit sector, including arts organisations.

“hang on to your hats. The boomers are about to influence the Australian arts market in a way never seen before.”

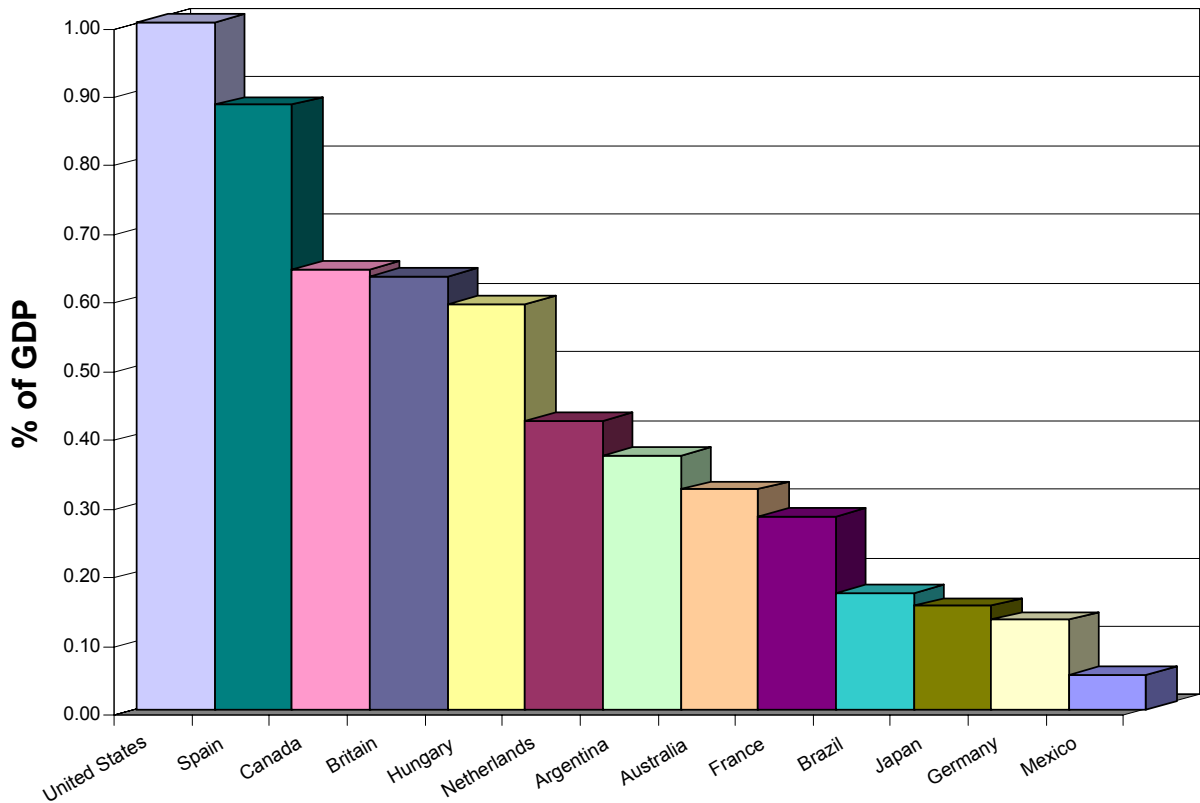
The Weekend Australian, May 5-6 2001, p42

How do we Compare ?

The degree to which this available wealth may benefit arts and nonprofit organisations in different countries is hinted at in the following chart, which broadly illustrates the relative generosity of nations. This chart compares total charitable giving as a proportion of gross domestic product in a dozen countries:

¹ Give Something Back, *The Economist*, June 16-22 2001

Philanthropic contributions (excluding religious organisations) as % of GDP, 1995:



Source: Johns Hopkins Comparative Nonprofit Sector Project [Australian and Canadian data added from available statistics]

The United States tops the “league”, with philanthropic contributions comprising just over 1% of GDP. The UK comes in at 0.6% of GDP, as does Canada. Australia comes in at just over 0.3%.

There are, of course, many aspects of personal generosity which do not figure in the statistics. Board membership, other forms of volunteering, the provision of free expertise (such as the Arts Law Centres in Australia, Arts and Business activities in the UK, Business Volunteers for the Arts in the US) all represent substantial contributions which are not reflected in the charts above.

The international comparison can be viewed from another perspective – the impact on the individual cultural organisation’s budget.

Although there are leading performing arts organisations in Australia which secure as much as 25% of their income from individual and corporate support, a recent Federal inquiry into the major performing arts organisations revealed that the average contribution from philanthropy and sponsorship amounted to approximately 12% of total income for the 30-plus major organisations. For smaller organisations the percentages are usually less.

Recent figures from Statistics Canada identify a contribution of 15.3% of income from fundraising and donations to performing arts organisations (9.6% for museums). In America, of course, the story is very different. 36% of performing arts income is in the form of philanthropy (23% for museums), and 80% of this philanthropic income is in the form of

individual donations². While it is true that “more and more European [and Australian] arts organisations are learning the American art of private patronage” and are being strongly encouraged to do so, it is questionable whether US levels of private support could ever be attained elsewhere, given the different traditions and personal wealth levels in other countries.

Success Factors and Constraints

In Australia there are a number of contextual factors which influence the breadth of philanthropic giving to the arts. Some brief observations.

There is no such thing as altruism

All giving is tied to an expectation of return. In the case of major contributions, it may be that the desire for immortality is a co-motivator alongside a highly developed sense of social obligation. This was the driver for the endowment of medieval religious orders, and later for the establishment of major institutions such as the Getty Museum, Carnegie Hall, Heinz Hall, and Tate Gallery. Adam Siegel, head of Hill & Knowlton Public Relations expressed a parallel view that many of the new philanthropists (in the United States) are driven by “self promotion, taking credit, branding yourself. They are not acting out of a sense of obligation but rather to be a celebrity – Mr Literacy or whatever”³. If this is what drives substantial philanthropic gifts, the arts organisation must be in a position to meet the donor’s needs. This has been fully understood for decades by successful fundraising organisations, but the concept that fundraising is a *transaction* is only slowly penetrating the arts beyond North America. The boomer bounty will not be harvested unless this message is received and understood.

In the corporate sector in Australia there has been a steady and continuing trend away from philanthropy and towards giving which is related to business objectives, either in the form of sponsorship or broader partnerships. This is considered to provide a stronger rationale for corporate links to the arts. The dominant agenda of the Australian Business Arts Foundation is directed towards educating commercial corporations and arts organisations into understanding how they can create value for each other through business-oriented partnerships. There is currently no champion for corporate philanthropy.

Substantial national and personal wealth is needed

Philanthropy is a product of individual wealth creation – Bill Gates has made the largest donation ever (\$21 billion US), both because he cares about fellow human beings and because he is the richest man in the world. Many of the most famous philanthropists are from the US – because there is a tradition of giving (and not expecting government to provide most social and cultural services), and because the US has the greatest number of millionaires and billionaires – it is by far the wealthiest country.

Relatively, the UK appears to have its fair share of generous donors – but many of the famous names are from the late nineteenth or early twentieth century, when the greatest personal fortunes were built. There have been a few since, of course. For example, in the field of the arts and education, the Paul Hamlyn Foundation has been conspicuous in its generosity. The Foundation was established when Hamlyn sold his publishing business.

² See Kevin V. Mulcahy, *Cultural Patronage in the United States*, International Journal of Arts Management, Vol 2, Number 1, pp53 - 58

³ Give Something Back, *The Economist*, June 16 2001, p.19

Other arts-supportive donors include the Sainsbury Trusts, the Clore Duffield, Jerwood, Peter Moores and Cameron Mackintosh Foundations. Alberto Vilar, a London-based American who made his fortune managing investment portfolios, has also emerged as a major contributor, specifically to opera, to which he has donated US\$200 million in the last few years, not only in the UK, but also in the US, Italy and Austria⁴.

Australia has had very few donors with such wealth. In the arts, time and again the names of Richard Pratt, the Myer Family, the Smorgon family and a few others come up. They are not the only substantial donors in the country, but there is nothing like the spread of wealth that the US enjoys. This is clearly a constraint on the capacity to secure major gifts.

Look also to the little people

The opportunity for Australian cultural organisations to increase their philanthropic income does not lie solely in major donations from Australia's relatively small band of millionaires. Much of the regular contributed income will be secured through long-term strategic development of smaller donors, and through building the modest donor into the higher-level donor through applying relationship marketing principles.

The baby boomer wealth transfer predictions create great opportunity over the next 10 – 20 years, but this requires a significant long-term commitment by the arts organisations. Cultivating donors is a time-consuming business. The non-profit organisations which have been successful usually have well-resourced development departments providing the human resources (and IT support) to build relationships with hundreds or thousands of supporters. It takes courage, especially for small organisations, to commit to this investment.

Tax breaks aren't the problem

There is a view that to encourage individual giving Government has to establish a sympathetic tax regime.

Imagine a country where to secure any tax concession from giving to a nonprofit organisation you had to guarantee that you would donate to that organisation on a regular basis for seven years. Imagine that the government's idea of relaxing the tax regime was to reduce that period from seven years to four years; and that subsequently the government finally allowed tax concessions for one-off donations, provided each donation was at least \$700.

That country was the UK, until very recently⁵. The 7 year commitment was called a covenant arrangement, which was later reduced to four years. The minimum threshold, a recent change in the system, is called Gift Aid. Contrast that punitive tax regime with Australia, where you can make a two dollar donation to a charitable organisation, secure a receipt, and claim the donation against your income tax for the year. The tax regime couldn't be more sympathetic. That is not the problem.

⁴ Hands in Their Pockets, *The Economist*, August 18 2001, p.69

⁵ Within the last year there has been further relaxation of the rules governing individual giving in the UK to encourage smaller donations.

Constraints

There appear to be three constraints to the development of arts-related philanthropy in Australia:

- the absence of a tradition and culture of giving
- lack of organisational capacity on the part of arts organisations
- the relatively weak appeal of the arts as a cause

None of these represents an insuperable barrier.

The absence of a tradition and culture of giving

Australians may not be as generous as the Americans, but their giving is at a similar level to that in many other developed countries. While the lion's share of giving is currently devoted to religious causes (though that may include religious causes which are closely linked with social benefits, such as the Salvation Army) the balance may change as the baby boomer giving grows in scale and impact. This could benefit especially cultural and environmental causes.

Lack of organisational will on the part of arts organisations

Most small and middle-scale arts organisations haven't got the resources or are too risk-averse to consider investing in a member of staff or two for a year or three in order to build up income through individual giving. Even Australia's largest arts organisations tend to have small development units. Until this investment is made, philanthropy will not produce the goods for the arts.

The relatively weak appeal of the arts as a cause

People give to causes which touch them closely, or which relate to their most-strongly held values and beliefs. Until arts organisations focus strongly on the emotional and value-based appeal of the arts they cannot maximise philanthropic giving. The good we are doing for the individual, for the individual's children and grandchildren will be the touchstone for philanthropy.

The last two constraints imply a competitive professional arena that is clearly biased in favour of the larger scale organisation which can afford to invest in development personnel infrastructure, and which has moneyed individuals amongst its core audience. Of course, larger Australian arts organisations should be pursuing this under-tapped source of income, and a few of them are doing so, emulating strategies which have been tried and tested over many years in the US. But where does that leave the rest ?

New models

Perhaps we need to promote new models or new approaches. We need to create avenues for individual philanthropy which help the smaller and middle-scale organisation by tapping into the goodwill of their audiences and sympathisers. If the organisations themselves do not have the resources to invest in philanthropic development, perhaps there are other, external interventions which could encourage both individual and corporate support.

One recent trend has been described as Venture Philanthropy. Some donors, especially major donors, are taking an entrepreneurial, businesslike interest in their giving – just as venture capitalists expect to keep a finger in the pie in relation to their investments. For the arts, this may represent a significant opportunity, creating the possibility of supplementing traditional donations with other forms of investment which are part-philanthropic, part-commercial. For some this may also provide a route to new expertise benefiting their organisations, although for others, it will probably send a shiver down the spine – yet another layer of unwelcome and onerous accountability.

Exploration of more flexible funding models, some of which have the capacity to harness philanthropic resources, include the *Banking on Culture* and *Creative Advantage* initiatives in Europe, and *Investing in Culture* in Australia⁶. These build on similar US models. Each of the initiatives moves in the direction of repayable low-interest loans for artists and cultural organisations, or venture capital arrangements. Each has the capacity to secure input from individual or corporate donors, attracted both by the notion that their donation may be recycled many times, increasing its impact, and by the fact that they can see short-term tangible results. A recent Government-organised conference in the UK focused exclusively on how private investment, including venture capital, could be linked more effectively with creative enterprise⁷.

While Governments are slowly moving towards more donor-friendly tax regimes, and businesses are becoming more strategic and proactive in their partnerships with the cultural sector⁸, much of the potential growth in cultural philanthropy in Australia and European countries, at least, is likely to be linked to heightened fund-raising professionalism and determination on the part of cultural organisations, and to the emergence of creative and more flexible mechanisms for linking donors and cultural recipients.

There will undoubtedly be other new models for resourcing the cultural sector to be explored, and new opportunities for even the smallest cultural organisation or business to increase income-generation as a result of new technology and media-convergence during the next decade. Just as other nonprofit sectors are beginning to experiment with e-philanthropy, so this augmentation of the reach of cultural organisations could open up tremendous new opportunities to harness the latent goodwill of those who enjoy and value the arts.

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⁶ See www.bankingonculture.com and www.creative-advantage-fund.org. Information on *Investing in Culture* is available from Positive Solutions, positive@powerup.com.au

⁷ *Report on the creative industries finance conference: connecting creativity with capital*, Department of Culture, Media and Sport, London, 2000

⁸ A description of these trends in France was provided in Natalie Savanet's article, *Sponsorship in France* in *IJAM*, Vol 2, Number 1 pp.59-63. Similar trends have been noted in Australia and the UK.