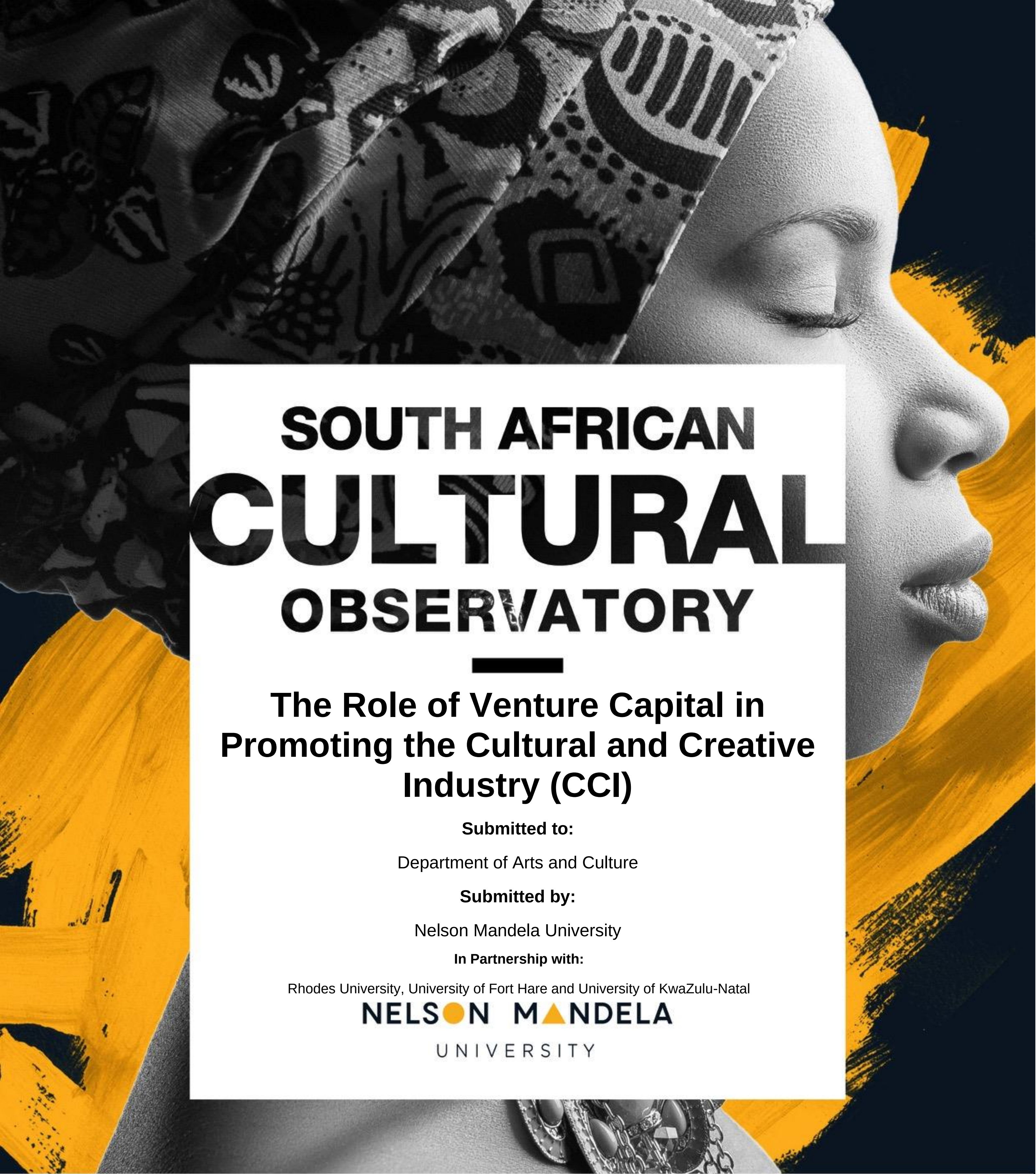

SOUTH AFRICAN CULTURAL OBSERVATORY

The Role of Venture Capital in Promoting the Cultural and Creative Industry (CCI)

Submitted to:

Department of Arts and Culture

Submitted by:

Nelson Mandela University

In Partnership with:

Rhodes University, University of Fort Hare and University of KwaZulu-Natal

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South African Cultural Observatory

The Role of Venture Capital in Promoting the Cultural and Creative Industry (CCI)

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Abbreviations

BASA:	Business and Arts South Africa
CCI:	Cultural and Creative Industry
DAC:	Department of Arts and Culture
DSAC:	Department of Sports, Arts and Culture
GOMACC:	Gauteng Organisation of Community Arts and Culture Centres
MGE:	Mzansi Golden Economy
NEA:	National Endowment of the Arts
NEF:	National Empowerment Fund
OECD:	Organisation for Economic Cooperation and Development
SACO:	South African Cultural Observatory
SMME:	Small, Medium and Micro Enterprises

Summary

This paper examined relevant literature and documents to provide an overview of the role of venture capital in promoting the Cultural and Creative Industry (CCI). The CCI contributes substantially to the economy and has the potential to further contribute to social cohesion, job creation and socio-economic development. This research is undertaken in the context that globally (and this is of major issue in South Africa) there is a high reliance on public funding to support the CCI that raises sustainability concerns. The paper critically examines current scholarly literature and reports on the role of venture capital to promote and support the CCI sector. Specifically, venture capital financing needs and trends in relation to the CCI sector are identified, current sources and future opportunities of venture capital support for the CCI sector are assessed, the types of support provided by venture capital to the CCI sector are established, and implications and challenges associated with venture capital support are unpacked together with recommendations.

Venture capital funding exists on a continuum from top-down (direct government funding) to bottom-up (the private sector is the dominant funder) approaches. Venture capital efforts for the CCI has gained in prominence with the shift towards developing the ‘cultural economy’ and ‘cultural industry’ which denotes a focus on economic aspects. Venture capital is important for many sectors that rely on this funding to start and expand businesses. Venture capitalists are attracted to businesses, individuals and activities that are seen to be entrepreneurial and can generate substantial growth. The CCI has characteristics that are unappealing for venture capital investments compared to other sectors. These include lack of business training and management skills, limited access to tangible assets, reliance on public investments or funding, workforce profile that is contract-based/ freelance, fragmented and changing markets, and difficulties in assessing and protecting intellectual property assets. Key issues emanating from the research reveal that globally and in South Africa specifically, access to venture capital funding for the CCI is difficult with venture capitalists supporting a few commercially viable businesses because venture capital or private sector investors often look for high growth potential with lower risks. Differences were also noted in terms of venture capital support within the CCI. Specifically, the audio-visual sub-sector has more investments than other sub-sectors. Discriminatory practices in relation to gender and racial inequalities are also noted with venture capitalists and the beneficiaries thereof generally being white and male-dominated. Urban areas also benefit substantially more than rural areas.

In terms of venture capital funding for the CCI, public sources dominate. There are substantial differences in the magnitude of the contributions from the private sector. The main types of venture capital support and financial instruments discernible in the literature are public financing, venture philanthropy, tax incentives, loans, guarantee schemes, creative vouchers, equity finance, joint ventures and in-kind/ non-monetary support. In the digital era, crowdfunding is emerging as a major source of funding which poses opportunities (such as democratising the commercialisation of innovation and financing) and threats (such as the crowding out of smaller projects). Trademarks in the CCI have also increased. Venture capital investments in CCI infrastructural development are also noted together with the importance of hybridisation and public-private sector partnerships.

The main South African venture capital sources for funding for the CCI is the Arts and Culture Venture Capital Fund supported by the Department of Sports, Arts and Culture (DSAC). The fund is an important source of finance for start-up entities. Of concern is that the qualifying criteria to access the funding tends to support mainly events rather than businesses and there is preference for companies that have a track record rather than those that are start-ups. Additionally, Business and Arts South Africa (BASA) is a major organisation in providing business support to the arts and cultural sector. The private sector (especially banks) also provides venture capital funding.

Key recommendations are forwarded which include developing a monitoring and evaluation system to track venture capital investments and the impacts thereof, as well as maintain a database. Future research should also examine the rates of loan repayments. The focus of venture capital should be on business development rather than supporting specific events or activities. Sector specific tailor-made solutions for access to finance for businesses and entrepreneurs in CCI need to be developed to accommodate the diversity in the sector. The 'ladder of growth' approach should also be considered. Private-public partnership need to be strengthened and public financing reduced. Tax and other incentives should also be considered. Investments in training, especially focusing on business aspects and entrepreneurship is critical.

1. Introduction

There is growing recognition as articulated by the Department of Sports, Arts and Culture (DSAC) that South Africa's Cultural and Creative Industry (CCI) sector contributes substantially to the economy and if adequately supported, can have a greater impact. It is for this reason that DSAC has adopted a strategy to reposition the arts, culture and heritage sector to address social cohesion, creation of sustainable jobs and ensuring socio-economic development. Bazalgette (2017) indicates that CCI globally is likely to grow as a proportion of the economy. To ensure that these objectives are met, to support sustainable growth and to maximise potential; promoting investments in the CCI sector becomes critically important.

Mollick and Robb (2016) state that globally even with the lower costs of innovating (and this applies to the creative and cultural sector as well), turning innovations into marketable products still requires capital and that access to funding is limited for many businesses and individuals. This is particularly more pronounced in the CCI where historically access to financing has been difficult to secure, except for high end, commercially viable projects.

Venture capital for the CCI is deemed to be critical although current trends reveal substantial differences in the magnitude of contributions by the private sector in different countries (Organisation for Economic Cooperation and Development - OECD, 2018a). The DSAC recognises the importance of venture capital by supporting the Arts and Culture Venture Capital Fund, stating that the Fund is intended to assist businesses with potential to be self-sustainable and not rely on government for grant funding (Bakshi and Windsor, 2015; Dovey et al., 2016; National Empowerment Fund - NEF, nd; O'Connor, 2015). Venture capital investments can take on numerous forms including direct funding and infrastructural support. For example, Swensen and Berg (2018) illustrate how the cultural sector in Norway is supported by the private sector promoting the use of redundant industrial buildings. Dovey et al. (2016) caution, however, that venture capital or private sector investors often look for high growth potential that to some extent have been de-risked which results in many micro-businesses (with the CCI is characterised by) being in the investment 'valley of death'. Thus, the CCI sector faces numerous challenges in attracting venture capital.

As indicated in the previous South African Cultural Observatory (SACO, 2019) report on CCI government funding in South Africa, the dominance of public sector funding was noted and concern raised that this is unsustainable. The importance of venture capital in this context is underscored. There is therefore a need to better understand the role of venture capital in promoting the CCI sector.

In the context of the above discussion, the overall goals of this paper are to:

1. Critically examine current scholarly literature on the role of venture capital to promote and support the CCI sector, especially to identify international best practices.
2. Identify venture capital financing needs and trends in relation to the CCI sector.
3. Identify current sources and future opportunities of venture capital support for the CCI sector.
4. Establish the types of support provided by venture capital to the CCI sector.
5. Unpack implications and challenges associated with venture capital support.

In terms of the methodological approach, a desktop study is used to examine policy documents, academic sources and relevant websites. Additionally, reports will be used. For example, the Monitoring and Evaluation reports of the different categories of the Department of Arts and Culture (DAC) Mzansi Golden Economy (MGE) funding includes information on private sector/ non-governmental which were examined in a recent commissioned study (SACO, 2019).

2. Overview of venture capital support for the CCI sector

Venture capital funding exists on a continuum from top-down to bottom-up approaches (Lucia and Trunfio, 2018). Top-down approaches are characterised by direct government funding or controlled by public entities/ agencies. Bottom-up approaches are dominated by private sector investments/ initiatives. Avnimelech and Teubal (2008) assert that strictly speaking, venture capital refers to organisations (and individuals) orientated to early stage equity-based finance and to the support of high-tech start-up companies. Audretsch and Lehmann (2004) state that venture capitalists are intermediaries between the demand and supply for such financial resources. Lehmann et al. (2017) state that venture capitalists not just provide financial resources; they also support and promote new ventures, making financial decisions smarter.

Lucia and Trunfio (2018) indicate that private investments and private actor support of cultural and creative activities assists in better managing avoiding the responsibility and financial risk of major investments. They particularly note the potential for private actors to complement or even replace public investments in trying economic times. This is an important consideration globally and in South Africa specifically where high reliance of public funding to support the CCI persists (SACO, 2019).

Concepts such as the ‘cultural economy’ and ‘cultural industry’ signals shifts in focus that the sector has economic and business components and aspirations. As Castaldi (2018) asserts, prior to the late 1990s the term ‘cultural sectors’ was preferred but thereafter creative industries became popular. Cunningham (2002: 54) notes that “'creative industries' is a recent category in academic, policy and industry discourse” intended to “capture significant 'new economy' enterprise dynamics that such terms as 'the arts', 'media' and 'cultural industries' do not”. O’Connor (2015) states that these concepts not only focus on the economic aspects of the sector but also on how the economy is culturally constructed. Numerous businesses start and expand with venture capital investments. Venture capitalists generally, especially in the private sector, seek to invest in businesses that they perceive will generate high returns on investments. This is the case in the CCI as well. O’Connor (2015) specifically states that financial investment interest is to transform cultural capital into economic capital. Dovey et al. (2016) also note that financial investors are attracted to support high growth businesses in the CCI. They warn, however, that the presumption of high growth as an unquestioned good is problematic for creative micro-businesses which are often more committed to having a sustainable creative practice and cultural preservation and regeneration rather than growing a business.

Cunningham (2004) asserts that venture capital players look for intellectual property that can be exploited and the resultant impact is expected substantial growth. For CCI individuals and activities to attract financing they need to be seen as being entrepreneurial, with the ability to generate profits or other benefits that have economic payoffs such as being a viable promotional or marketing platform for the financial investor. Chang and Wyszomirski (2015) indicate that entrepreneurship in the CCI operate on five analytical levels: personal character traits, goals, strategies, tactics and context. They also provide a definition of arts entrepreneurship as “a management process through which cultural workers seek to support their creativity and autonomy, advance their capacity for adaptability, and create artistic as well as economic and social value” (Chang and Wyszomirski, 2015: 11). They further assert that this management process involves arts entrepreneurs making choices and taking risks to pursue new opportunities to produce artistic products with economic and social value.

Venture capital support for the CCI occurs as a result of a number of reasons. One of the main reasons is the economic benefits of the CCI from productions to innovations associated with the sector (KEA European Affairs, 2010). KEA European Affairs (2010) specifically states that culture and innovation are a key ‘soft location’ factor which helps regions to attract investment, support creative talent, boost tourism and increase social cohesion which contributes to local development and the development of ‘creative ecosystems’.

The key attributes that influence venture capital support are reputation of the business and/ or individual seeking financing, potential/ expected profitability and legitimacy of the venture (Coslor and Spaenjers, 2016; Ertug et al., 2016). Ertug et al. (2016) argue that reputation of a business or individual for venture capital funding is particularly important for the CCI where there remains ambiguities about how this sector is perceived and understood by established financiers. They further indicate that a key component of an entrepreneur's reputation in CCI is linked to audience perceptions and experiences which effects the success of CCI ventures. The CCI and creative entrepreneurs specifically are generally characterised by the following (Bazalgette, 2017; KEA European Affairs, 2010; Lehmann et al., 2017):

- An organic approach to business growth whereby creative entrepreneurs focus on passion-driven activities/ projects
- Insufficient business skills of CCIs in analysing risks and opportunities
- Lack of business training and financial management skills
- Limited access to tangible assets that can be accumulated over time and offered as a guarantee
- Reliance on public investments or funding which makes the relevance of private resources less important
- Lack of awareness and insufficient information among CCI companies/ individuals about venture capital finance opportunities and other available funds.
- A lack of organisation at trade association levels which results in the ability of the sector to engage collectively
- Workforce profile that is contract-based/ freelance
- Culturally and linguistically fragmented and constantly changing markets
- Difficulties in assessing and protecting the value of intellectual property assets in the sector
- Business models that need to respond to digital/ technological changes

Lehmann et al. (2017) further indicate that almost no positive returns and revenues make many CCI businesses/ entrepreneurs less attractive for venture capital financing. Specific CCI sub-sectors also face unique challenges. For example, Coslor and Spaenjers (2016: 60) indicate how art is unlikely to become a completely mainstream investment:

> Art is an illiquid, opaque asset that pays no monetary dividends but comes with high storage, insurance, and transaction costs, and the size of the art market is small compared to that of financial markets. Moreover, insiders can exploit their superior information, at the expense of outsiders.

They note that despite the natural limits of the market, as perceptions of the value of art has increased (although in a small, high end market), there has been a reluctant acceptance of artwork as a legitimate investment area, including investment funding.

Bazalgette (2017) states that CCI small businesses are disadvantaged compared to small businesses in other sectors to secure venture capital financing, especially from the private sector given the perceived risks and assumptions associated with the characteristics of the sector. These attributes generally are not attractive to traditional venture capitalists such as the established financial sector. These aspects also influence CCI businesses and entrepreneurs to be hesitant and less aggressive to secure venture capital funding. Wilson and Stokes (2005) also indicate that many businesses/ entrepreneurs in the CCI fail to distinguish managing creativity, innovation and running a business. In terms of the latter, they argue that creative and cultural entrepreneurs should focus both on the creative components as well as on financial management, business communication skills and promotional strategies. This, they assert, will result in the success of small creative businesses in managing both the generation of new ideas (creativity) and the successful exploitation of those new ideas (innovation and business development). Lehmann et al. (2017) state that creativity, self-discovery and entrepreneurial spirit are by far a fundamental condition to generate ideas. However, they note that to transform ideas into innovations, marketable goods or services; the access to financial resources is a condition. Furthermore, KEA European Affairs (2010) states that private sector investors are generally unaware of the growth potential of CCI companies and the economic importance of the sector. This lack of knowledge about the CCI among investors results in limited suitable and targeted finance instruments to respond to the needs of businesses/ entrepreneurs in this sector.

A key attribute the venture capitalists often consider is financial viability of the business, individual enterprise or activity/ event. This criteria results in funders 'betting on the strong' with more established as well as better resourced emerging businesses qualifying for support. The criteria generally applied by venture capitalists is not congruent with the characteristics of the CCI. As Holgate and McKay (2009), Pratt (2011) and Woronkowicz and Noonan (2019) state, firms operating in the cultural and creative economy are usually small and short-lived with high levels of freelance or contract workers resulting in job insecurity and precarious working conditions. Woronkowicz and Noonan (2019) state that many artists and technical persons employed in the CCI switch in and out of self-employment and contract/ freelance work. These types of businesses or persons working in this sector who are trying to start-up a business are less likely to attract venture capital funding. This is supported by Leadbeater and Oakley (1999) who state that although venture capital has become easier to access for the CCI and Lee (2016) who indicates that venture capital has become more flexible and has expanded to accommodate creative and cultural enterprises, many businesses in this sector still face challenges to attract this type of financing.

There are several sub-sectors that comprise the CCI which include (KEA European Affairs, 2010):

- Visual and digital as well as performing arts
- Cultural industries (film and video, television and radio, music, books and press, video games)
- Creative industries (fashion, design and advertising)

Cunningham (2002: 54) cites the Creative Industries Task Force Mapping Document used in the United Kingdom to delineate CCI into the following activities:

> …advertising, architecture, arts and antique markets, crafts, design, designer fashion, film, interactive leisure software, music, television and radio, performing arts, publishing and software. This eclectic list includes the resolutely analogue (arts, crafts, antiques, architecture), established commercial business sectors (TV, radio, film) as well as all-digital new economy sectors (software, interactive leisure software).

KEA European Affairs (2010) states that the financing needs in the CCI vary according to:

- A company's or individual's stage of development
- The particular sub-sector and its value chain

- The specific type of activity that needs financing

Each sector is not equally funded. The trends reveal that the main types of CCI activities/ sub-sectors that attract venture capital funding is audio-visual businesses. Additionally, KEA European Affairs (2010) states that the film industry usually benefits from tax incentives and the content sector (video games, animation, web designers, broadcasters, etc.) benefits mostly from equity finance. In addition to differences in terms of which sub-sectors are more attractive for venture capital support, it is important to note that discriminatory practices are also discernible in relation to which businesses and individuals are supported. For example, Mollick and Robb (2016) note gender and racial inequalities in that men are more likely to benefit compared to females and that the financial investment sector (including venture capitalists and angel investors) is extremely white and male-dominated. They indicate that this trend is of concern given that venture capitalists and angel investors provide the vast majority of the seed funding to get ideas into the marketplace. Additionally, businesses and individuals located in urban areas compared to rural areas are better positioned to attract venture capital financing which indicates locational disparities (Maryunani and Mirzanti, 2015). Maryunani and Mirzanti (2015) further state that being in close proximity to large cities also assists creative and cultural entrepreneurs to thrive. They show, for example, how Bandung's close proximity to the Jakarta (the capital city of Indonesia) provided an opportunity for it to become a creative city. They also show how the development of a creative city has positive tourism impacts that further promote local economic development. Mollick and Robb (2016) state that the lack of diversity in the suppliers (and beneficiaries) of equity financing is problematic from an equality perspective and it also leads to a failure to commercialise good ideas from non-traditional sources.

Bazalgette (2017) indicates that there are very low success rates among applicants who seek financing outside targeted government funding initiatives for the CCI. This, Bazalgette (2017) asserts, results in 'discouraged borrowers' across the sector where many in the sector need external finance but do not apply for a bank loan because they fear that their application will be rejected. Bazalgette's (2017) report also reveals that even if applications were successful, creative businesses were more likely to turn down loan offers due to the terms of the offer (including requests for personal security).

Venture capital funding as a component of private sector investments is viewed as assisting with cultural regeneration, especially in urban contexts. This is supported by Griffiths (1993) decades ago who noted the relationships between cultural policies and regeneration strategies, noting how arts and culture-related policies played a key part in the urban revitalisation strategies pursued by city authorities in Europe and North America. Griffiths (1993) concludes that 'cultural planning' might contribute to social and political change in cities. This remains relevant today since for the cultural economy to be viewed as being attractive for financing it needs to be better profiled as a key contributor to economic development and job creation, and that it has the potential to generate high returns on investment.

Evans (2009) refers to the phenomena of cultural quarters and creative clusters that are no longer confined to heritage or historic sites. The concentration of cultural infrastructure, services and products in specific destinations creates spatially defined clusters in towns. Lucia and Trunfio (2018) show how the hybridisation of urban cultural heritage via private investments and engagement with stakeholders contributes to bottom-up cultural regeneration processes in Italy. They cite literature which reveals that notions of the creative city in post-industrial societies are associated with repositioning “heritage, culture and creativity as engines of social innovation, economic development and regeneration” (Lucia and Trunfio, 2018: 35). They further assert that focusing on supporting the development of a creative city needs to be also linked to social inclusion and sustainability. This is best achieved, they argued, with an implicit emerging community strategy.

3. Sources of venture capital funding for the CCI and types of activities supported

Drawing from international best practices/ case studies, this section examines the sources of venture capital funding for the CCI and types of activities in the sector that are funded. In relation to sources of venture capital funding, the main source remains the government sector. Specifically, Lazzaro (2017) states that creative ventures at the early states are generally supported by the public sector. The shift to private sector investments (such as loans, guarantees, business angels and equity schemes), however, are more concentrated among creative industries, businesses and entrepreneurs that demonstrative commercial viability.

The main types of venture capital support and financial instruments discernible in the literature are public financing, tax incentives, loans, guarantees, equity finance, joint ventures and in-kind/ non-monetary support. These are provided by government, the private/ corporate sector, philanthropic organisations/ individuals and/ or non-governmental/ civil society organisations. O’Connor (2015) also identifies the research and development sector (including universities) that support innovation and incubation via institutional venture capital funds that may result in CCI spin-off companies. The importance of university support for arts and cultural activities is also underscored by Leadbeater and Oakley (1999) who state that for many cultural entrepreneurs, especially during the early stages, being part of or associated with a university allows them to experiment. They also note that universities (especially those located in university towns) expose CCI artists/ entrepreneurs to relatively large audiences for experimental and cheaply produced events, shows, exhibitions and other types of creative and cultural activities. The dominance of government funding/ public venture capital sources reinforces concerns raised by SACO (2019) in relation to the high reliance on government funding for the CCI which raises questions in relation to the sustainability of CCI entrepreneurs and activities.

The key finance instruments are summarised as (European Parliament, 2011; KEA European Affairs, 2010; Lazzaro, 2017; OECD, 2018b):

- Loans are a key and important source of finance with varying investments for specific sub-sectors and the amount of financing provided ranges from micro-credit schemes to large loans. These are usually provided by banks and other private financial institutions and public entities/ departments. The Culture Loan and the Triodos Culture Fund in the Netherlands and the Arts and Culture Venture Capital Fund in South Africa are examples of financing sources specifically for the CCI. Outside this, CCI businesses/ entrepreneurs apply for multi-sectoral loans, usually from banks and other financial institutions that provide loans to Small, Medium and Micro Enterprises (SMME).
- Guarantee schemes share the risk of the investors. They encourage financial institutions to provide debt-based financing to CCI businesses and function as security to ensure loan repayment. The three types of guarantee schemes are public, private

and public-private guarantee schemes. The most prominent guarantee schemes for CCI ae managed by public entities.

- Equity financing are co-investment schemes. This could be from equity finance schemes that are bankrolled by public enterprises/ government departments and private companies. Additionally, wealthy individuals (referred to as business angels) invest at the early or start-up phase for equity shares. Larger businesses are more likely to benefit from equity finance than smaller businesses. Furthermore, equity finance is usually geared towards start-ups with high growth potential. Two main types of equity finance is identified: venture capital and mezzanine capital. Venture capitalists take equity in the company by investing third party money and look to expect high rates of annual returns by sharing in the profits of the business. Mezzanine capital uses hybrid instruments by combining elements of risk and debt-based finance.
- Cultural and creative businesses in some countries in Europe qualify for tax incentives. There are numerous types of tax measures which include tax reliefs, tax breaks, tax deductions, tax exemptions, tax allowances, etc. These are usually associated with write-offs that reduce the amount of taxes to be paid. Tax incentives also refer to specific measures aimed at encouraging desirable behaviour that support arts and cultural activities. These tax incentives either encourage the private external investments as well as the production of cultural goods and services in CCIs. Sponsorships and donations can also benefit from tax incentives for individuals and businesses.
- Creative vouchers for CCIs is also identified to provide incentives for innovation and development in the sector. A voucher is a credit for a specified monetary value that can be used for itemised purposes. The vouchers can be used to purchase goods or services from local firms.
- Non-monetary/ in-kind support usually focuses on investment readiness programmes, facilitating meetings/ networking with investors, advisory sessions on various aspects (such as intellectual property rights, marketing and promotion, financial and business management, etc.) and the provision of incubation services and spaces.

Additionally, Evans (2009) states that joint ventures can occur in marketing, information and technologies, research and development, and capital investments. Crowdfunding and online fundraising is a more recent mechanism that has emerged in the digital era which sources private investments (Brabham, 2017; European Parliament, 2011; Mollick and Robb, 2016; Polese et al., 2015). Brabham (2017) states that crowdfunding is a method for financing small or risky artistic products unlikely to receive mainstream corporate or government support. Belleflamme et al. (2014: 1) provide a similar definition of crowdfunding which refers to the process where “an entrepreneur raises external financing from a large audience (the ‘crowd’), in which each individual provides a very small amount, instead of soliciting a small group of sophisticated investors”. Mollick and Robb (2016) note that crowdfunding can be an important source for start-ups, offering an alternative to traditional financing, that is, venture capital or government support. They also indicate that crowdfunding has the potential to democratise the commercialisation of innovation and financing. Brabham (2017) states that crowdfunding has been increasing with dedicated crowdfunding sites such as Kickstarter and Indiegogo being used to manage fund raising campaigns.

Crowdfunding is not always perceived to be beneficial for the CCI. For example, Brabham (2017) argues that crowdfunding discourse threatens the public arts. Heddaya (2013) specifically states that sourcing funds from a crowd may allow elites to crowd out smaller projects by exploiting name recognition, having more resources and employing more effective marketing strategies. Furthermore, crowdfunding is usually dependent on individuals to be able to use social media effectively which places some at an advantage compared to others. As Brabham (2017) asserts, success on crowdfunding platforms is closely associated with one's ability to promote his or her campaign on social media. Brabham (2017) also cautions that crowdfunding influences perceptions of what the public is interested in and thereby influences the types of projects and individuals that private and public venture capitalists would invest in. This, Brabham (2017) argues, raises questions about the use of private, exclusionary technological processes to make determinations about public goods such as arts programmes. When CCI is supported by public funds and public goods the focus tends to be on public benefits (Brabham, 2017) which ensures that more socio-economic groups in society have access to arts and cultural products and experiences. Privatisation (including in the context of crowdfunding) can result in elite projects and events/ activities that are not accessible to many groups. Brabham (2017) asserts that access to the arts and cultural realm is increasingly being framed as an economic policy debate rather than a basic right or a public good which crowdfunding reinforces.

Avnimelech and Teubal (2008) outline a three-phase innovation and technology policy model derived from Israeli, Chilean and Korean experiences which they argue could contribute to an increase in the rise of venture capital or related equity-based support and finance systems for innovative SMMEs. The importance of technology, and digitisation specifically, is also highlighted by Hesmondhalgh and Meier (2018) who illustrate how digitisation of music has substantially changed venture capitalists interest in the music industry. In the age of digitisation and electronic media, protecting intellectual property rights have become increasingly important. Castaldi (2018), for example, shows how trademarks (which were generally confined to the manufacturing and other specific sectors) have grown in the CCI. Castaldi (2018) cites research that reveals the following reasons for the increase in trademark applications globally in the CCI:

- economic growth has resulted in an increasing demand for product variety resulting in more new companies and new products in the marketplace (including the CCI);
- increasing competitiveness of service and creative sectors has promoted the use of intellectual property rights other than patents to protect non-technological forms of innovation that characterise the CCI; and
- the advancements in information and communication technology influenced the demand for trademarks, for example, the need to build reputational value and legitimacy in digital marketplaces.

Castaldi (2018) further indicates that trademarks in the CCI can be the basis for novel economic indicators of product variety and innovation in the sector. Coslor and Spaenjers (2016) also indicate that understanding the technical knowledge about the financial characteristics of art (and this could be extended to many types of products emanating from the CCI), including the financial valuation, is important to better structure investment ventures and thereby investment success. In order for CCI enterprises to attract venture capital funding, they need to be packaged and marketed as products that are worthy of financial investment.

Swensen and Berg (2018) also show how venture capital can support infrastructural developments for the cultural sector such as the use of redundant industrial buildings as indicated earlier. They assert that private entrepreneurs see the potential for the development of old industrial buildings which will attract future investments. These old buildings, they argue, can also be viewed as industrial heritage sites. Swensen and Berg (2018) illustrate that these projects were initiated by artists and cooperation between private entrepreneurs and municipal planners. They underscore the importance of public-private partnerships. Nightingale et al. (2009) refer to public-private partnerships in relation to financing as 'hybrid' venture capital schemes which are backed by both private and public sector funding. They argue that these hybrid schemes play an increasingly important role in the risk capital funding of early-stage firms with the potential for significant growth. A different type of hybrid venture and entrepreneurial activity is identified by Woronkowicz and Noonan (2019) where CCI entrepreneurs are simultaneously involved in self-employment and paid employment.

The venture capital instruments take the form of direct (such as funding for CCI businesses and/ or individual artists) and indirect funding (such as tax credits). The European Parliament (2011) states that multiple financing approaches are part of mixed funding economy for the arts and culture which they argue is a model for financial sustainability. As part of the mixed funding economy, they further assert that venture capital is a component of other sources of funding available which includes earned income as well as direct private and public support as grants.

Philanthropic organisations and individuals are also an important sources of venture capital funding. Moody (2008) states that venture philanthropy emerged in the mid- to late 1990s to revolutionise grantmaking. Cobb (2002) states that philanthropic support for arts and cultural activities is part of the variety of initiatives that support arts and culture by bridging the for-profit and non-profit support for the CCI. Nicodemus (2013) also notes that many government agencies that provide financial support to the CCI function more as private philanthropic foundations rather than public financial enterprises that require tangible returns on investments. Nicodemus (2013) explores how the National Endowment of the Arts' (NEA) support of mostly non-profit arts organisations is philanthropic in nature with expectations being mainly associated to support experimentation and innovation as well as cultural expression. Nicodemus (2013) indicates how NEA and the Artplace (a collaboration between 13 foundations and 6 banks) provide grants and investments for arts-centred initiatives in the United States of America.

South African venture capital sources of funding for the CCI

Publicly-supported venture capital schemes are evident in many countries. For example, Alexander (2018) show how the Arts Council England runs venture capital schemes as well as educations and skills programmes as well as targeted support for projects to promote artistic excellence with commercial growth. Alexander (2018) also argues that the increased focus on enterprise culture and managerialism in the arts and cultural sector results in state funders and other supporters of the CCI being greatly influenced by corporate interests. In the South African context, as stated earlier, the Arts and Culture Venture Capital Fund is the main government support for small businesses in the CCI because, as NEF (nd) indicates, DSAC realises that in order to achieve radical economic transformation and create jobs, access to funding must not be limited to few businesses. Loans start from R250 000 to R5 million. DAC (2017) and NEF (nd) state that the Fund is designed to promote and develop the arts and culture sector by providing affordable loans to start and/ or expand small businesses. They further assert that the Fund is an important source of finance for start-up entities and for companies that have limited operating history which do not have access to capital markets. DAC (2017: 5) further states that the Fund “is seeking to redress past imbalances by addressing the lack of financing instruments for the creative industries and so doing, contribute to economic growth, the creation of decent work and income generating opportunities for creative industry practitioners”. They also indicate that the Fund aims to assist SMMEs that do business in the Arts, Culture and Heritage sector to meet financial goals and help them to become skilled business owners by providing finance as well as to develop entrepreneurs to become independent and self-sustaining by providing non-financial support and skills development.

Support for arts and cultural businesses is also intended to promote sustainability and reduce reliance on government for grant funding which is identified as a concern in South Africa (SACO, 2019) and globally as well (KEA European Affairs, 2010). The Fund is targeted for businesses in all provinces. The laudable intent of the Arts and Culture Venture Capital Fund is noted. However, the qualifying criteria seems to support mainly events rather that business and entrepreneurial development. For example, some of the key qualifying criteria are ‘a brief profile of artists that will be performing to be included in the business plan’, ‘justification for proposed pricing of the event and line up of artists’, ‘there must be commercial returns at the end of the project, in other words the revenue to be made through ticket sales must exceed the total cost of the event’ and ‘the venue to be used must be available, have enough capacity and be suitable for the event’. Similar concerns are raised by Clayton and Mason (2006) who state that that one of the key reasons forwarded to explain the limited commercial success of CCI enterprises is the trend to focus on financing projects rather than the company itself. An additional concern is that while the Arts and Culture Venture Capital Fund targets start-ups or expanding small businesses, the compliance requirements (DAC, 2017; NEF, nd) tend to profile businesses that are already set-up rather than start-ups. The objectives of the Fund is to target start-ups as well. Perhaps there should be a component of the funding that targets start-ups as part of an incubation programme. Provincial government funding for arts and culture, such as the Gauteng Organisation of Community Arts and Culture Centres (GOMACC) also provides funding for the sustainable development and growth of the arts, culture and heritage in South Africa by fostering mutually beneficial partnerships between the corporate, public and cultural sectors.

In South Africa, Business and Arts South Africa (BASA, 2019) is an internationally recognised South African development agency, offering integrated programmes that are implemented nationally and internationally. BASA (a non-profit company) was founded in 1997 as a joint initiative of DAC and the business sector as a public/ private partnership. BASA (2019) indicates that the organisation encourages mutually beneficial partnerships between business and the arts, securing the future development of the arts sector in South Africa and contributing to corporate success through shared value. BASA (2019) views itself as a ‘connector catalyst’ for the arts and business sectors by providing expertise in developing partnerships between business and the arts. BASA has government (such as the DAC, the National Arts Council of South Africa and the National Lottery) and private sector (Rand Merchant Bank, Nedbank, Standard Bank, First Rand Bank, Business Day, Grant Thornton, Adams & Adams, Connect/ZA, Hollard and Distell) partners. BASA has programmes that provide financial support for artists/ arts organisations and businesses. For example, the BASA Supporting Grant Programme provides financial support to a project that is in an already existing relationship between a business and arts organisation. This Programme requires the applicant to have a willing business sponsor. If they do not have a sponsor they do not qualify. A study by SACO is currently underway to examine the impacts of BASA funding. This research will further shed light on the impacts of financial and other types of business support to the arts and cultural sector, including the types of financing that CCI businesses supported by BASA have access to and the perceived impacts.

Numerous banks in South Africa actively participate with agencies and organisations (such as BASA and NEF discussed above) to provide funding and other types of support for the CCI. The Standard Bank Group, for example, provides arts and culture sponsorships and have been associated with supporting jazz since 1997. There are also locally-based initiatives such as Art Bank Joburg that helps local artists. Established by the City of Joburg, Art Bank Joburg buys art from emerging and established artists in the city, and then leases it to public and private sector clients for sale (den Hartigh, 2010).

SACO's (2018a; 2018b; 2019) examination of the events and activities supported by the MGE reveals numerous sources of funding for the CCI with DAC, government agencies (including the National Lotteries Commission and the Arts and Culture Trust) and other government departments from local to national levels being the main funders. Private sector, non-government and international funding sources were also identified. The key funders among these were banks (Standard Bank and Nedbank having specific programmes). Joint ventures/ public-private sector partnerships were also discernible as noted earlier. It is important to highlight that this research did not establish the different types of funds that were accessed. Therefore, it is not possible to ascertain whether MGE supported events and activities where accessing venture capital funding and the extent thereof.

4. Recommendations

In the South African context, it is imperative that future research focuses on tracking venture capital investments as well as the impacts thereof. This should be part of a broader monitoring and evaluation system that maintains data in relation to key indictors on venture capital investments in the CCI to:

- Assess whether venture capital investments are increasing or decreasing
- Determine the proportion and change of venture capital investments in relation to public and/ or private sources and types of funding
- Identify the sources of venture capital investments (and maintain a database of key stakeholders in this regard)
- Track loan repayments against amount of funding provided and different types of businesses supported
- CCI areas of venture capital investments to identify genres of strength and those that are likely to be vulnerable

As indicated in this paper, South Africa and other countries have provided venture capital funding for the CCI from public sources. There appears to be no or limited research that tracks the extent to which repayments on loans are made, consequences if loans are not repaid and whether businesses supported are sustainable post funding. This is an important area for future research.

Government venture capital funds such as the Arts and Culture Venture Capital Fund in South Africa should focus on loans/ funding for business/ entrepreneurial development rather than supporting events/ projects which other initiatives of DSAC, such as other Programmes that the MGE supports. If events are supported then it should be part of a broader development programme for business sustainability. Furthermore, as KEA European Affairs (2010) and OECD (2018b) state, government should focus on creating an enabling policy environment to encourage investors to support CCI. Given the reasons for reluctance among private sector investors to fund CCI, the public sector should focus on creating fora and initiatives to improve relationships between potential investors and CCI businesses/ entrepreneurs as well as to assist businesses/ entrepreneurs to become investor attractive and build investor confidence. Given the diversity of the different types of activities and sub-sectors that comprise the CCI, the variety of businesses/ entrepreneurs as well as the characteristics of the sector and businesses/ entrepreneurs discussed earlier; the financing needs within the CCI differ considerably. Therefore, as recommended by KEA European Affairs (2010) and Bazalgette (2017), sector specific tailor-made solutions for access to finance for businesses and entrepreneurs in CCI need to be developed. Bazalgette (2017) specifically advocates for a 'ladder of growth' approach that works for businesses of different sizes given that some creative and cultural enterprises are disadvantaged compared to others within the CCI and in other sectors when seeking growth capital. Bazalgette (2017) presents the Creative Industries Council's 'ladder of growth' proposal which includes:

- Step-up finance: Lower loans and equity investments by requiring matching private funding to be secured by each business against each investment.
- Angel co-investment fund: providing equity finance for creative industry SMMEs with high growth potential to give them the capital they need to develop further. Government funding will be supplemented by private sector (business angels) financing.
- Debt and equity growth finance: providing higher level funding for larger, more established businesses from government and private investors.

Private-public partnership need to be strengthened, especially in contexts where there is high level of public sector reliance. This is supported by the European Parliament (2011: 14) who assert:

> 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.

Tax and other incentives should also be considered for private individuals who are supporting entrepreneurial activities in the CCI. This implies that there needs to be policy changes by the South African Revenue Services to provide tax incentives for private sector companies and organisations that provide venture capital support for the CCI. Specifically, there should be greater incentives to support CCI SMMEs and individual start-ups who need the most assistance and are least likely to attract sufficient funding to be viable businesses or entrepreneurs.

It is important for appropriate policies and guidelines to be in place, especially for public sector venture capital funding. Policies should inform the types of financing mechanisms that should be prioritised, the CCI projects or activities to be supported, the key sub-sectors, and the types of entrepreneurial, training and incubation activities that need to be put in place to ensure venture capital investment readiness. Training is an important aspect to improve business and marketing related skills to increase the success of the enterprise and thereby position the CCI business/ entrepreneur to attract venture capital funding to grow further if needed. Different types of training models should be considered including apprenticeship (businesses learn from other business), government, non-governmental and private sector initiated efforts (such as workshops, seminars, etc.) and formal education courses that culminate in qualifications. Wilson and Stokes (2005) state that formal education courses have an important role in encouraging creativity as well as the acquisition of core business skills necessary for innovation and business success. Effective entrepreneurial training should also consider the range of arts entrepreneurship components identified by Chang and Wyszomirski (2015) which are presented in the Table below.

Table 1: Taxonomy of arts entrepreneurship components (Chang and Wyszomirski, 2015: 25)

LEADERSHIP VISION	LEADERSHIP TOOLS	PERSONAL CAPACITY	PERSONAL TRAITS	EXTERNAL ENVIRONMENT
STRATEGIES	TACTICS	COMPETENCIES/ SKILLS	MINDSET	CONTEXT

- New ventures - Creative enterprise - Career portfolios - Community or heritage enterprise - Social enterprise - Change management - Intrapreneur	- New marketing approach - Audience development - New funding source - New funding approach - Networking - Partnerships - Recombination - Bricolage - New technology	- Opportunity spotting - Business skill acquisition - Professional Development (training and Education)	- Perseverance - Risk-taking - Tolerance of failure - Open-minded	- Organisation - Individual artist or small business - Artistic field - Local/ regional locale

5. Conclusion

The CCI contributes substantially to the economy and has the potential to further contribute to social cohesion, job creation and socio-economic development. Venture capital investments are critically important to further grow the sector and support SMMEs that tend to dominate the types of businesses in the CCI. This will ensure job creation as well as socio-economic development, especially given the role of the CCI to promote social cohesion as well as cultural preservation and regeneration. However, as this paper shows, currently CCI businesses and individual entrepreneurs do not have the characteristics that make them attractive for venture capital support, especially from the private sector that generally views businesses and entrepreneurs in this sector as high risk and with low growth potential. This paper reveals that public funding remains the main source of venture capital funding globally and in South Africa specifically. This is unsustainable and therefore the range of financial instruments and mechanisms available to promote investments in the CCI should be strengthened and supported. In particular, public-private partnerships and joint ventures are important to shift venture capital support away from public sources and to increase private contributions.

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