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## Opportunities for PPP in Culture<sup>1</sup>

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### **Abstract**

*In recent years, the importance of PPP has increased – but the projects still remain focused and concentrated in the infrastructure / transport industry. Public-private partnership in some areas of the cultural sector could provide many benefits to both parties. There is at present an absence of any mentionable experience with PPP projects in the culture and no special legislation for this application area. This article aims to provide a brief analysis of the advantages and problems of the PPP projects in the field of culture that is dominated by the state offers and their influence on the future situation in this sector.*

### **Key words**

*PPP, public-private-partnership, culture, project finance*

**JEL Classification:** H41, H44

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### **Introduction**

In recent years, the co-operation between the public and the private sector has been showing an upward trend thanks to the complexity and dynamics of the market. As suggested by the term "Public Private Partnership", it involves cooperation between a public or state institution and the private sector in the form of a short-term or long-term project.

The goal of cooperation in the form of PPP is to ensure competitive environment and efficient management. With public assets and provision of public services, it is particularly necessary to emphasise the cooperation on the basis of public-private partnerships, which provide many possibilities to both parties. This form of cooperation has expanded to such a huge degree, that nowadays we can find PPP in countless areas of economic activities. As stated by PPP Association (PPP Association, 2011), in addition to PPP projects in the field of transport infrastructure, in Slovakia we may find this form of cooperation also in healthcare (Nuclear Molecular Medicine Institute in Košice, Public Procurement Office, 2008) and culture (PPP Association, 2008). However, PPP in healthcare and culture are in fewer numbers and rather in a planning stage than in implementation. So far, there have been no PPP projects implemented in Slovakia in the field of sport or education.

This article aims to provide a brief analysis of the advantages and problems of the PPP projects in the field of culture that is dominated by the state offers and their influence on the future situation in this sector.

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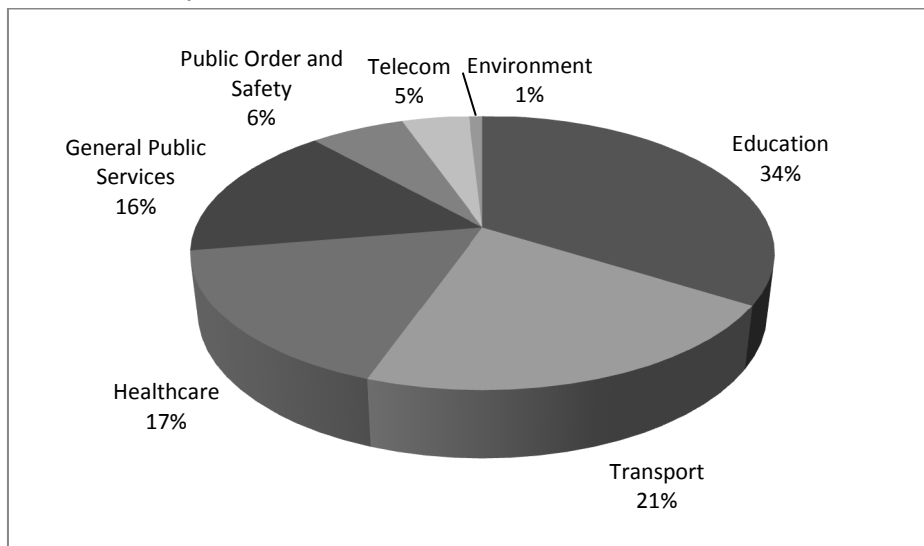
### 1 Sectoral PPP in Europe

In the majority of countries, the impetus for first PPP projects came with under-developed transport infrastructure, to be typically followed by other areas such as healthcare, social services, education, sport, culture, defence, environment and many others. In 2010, approximately 80 % of all PPP projects in Europe were implemented in Great Britain, France, Germany and Spain (EIB, 2010). Last year, the projects from other fields than transport reached for the first time about half of the market value of all PPP projects.

Slovakia was rather late in starting using PPP projects. The projects in the field of transport and infrastructure dominate in terms of the volume of investments not only in Slovakia but also in other countries. According to information from the European Investment Bank, the infrastructure projects exceeded in 2010 all other projects in terms of investment value, although in terms of the number of implemented projects other sectors dominated over the infrastructure sector (EIB, 2010).

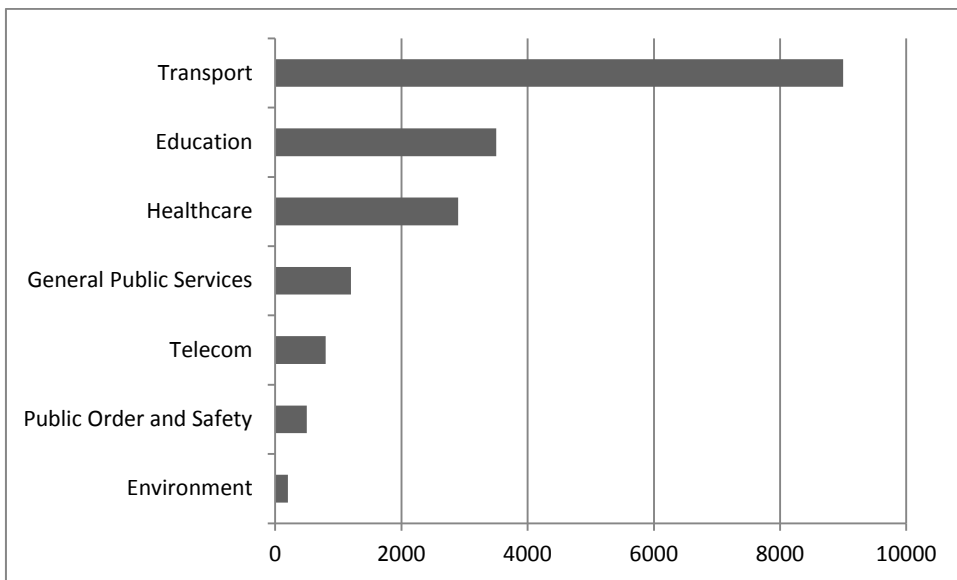
Before looking at the information below, we must note that the overview prepared by the European Investment Bank for the period of 2010 takes into account only big projects with a value exceeding EUR 5 million.

**Graph 1** Number of deals of PPP projects in Europe in percentages for the period of 2010, breakdown by sectors



Source: EIB, 2010.

**Graph 2** Investment value of PPP projects in Europe in EUR million for the period of 2010, breakdown by sectors



Source: EIB, 2010.

According to the international research by PWC, in 2008 we saw the following structure of PPP projects in Central and Eastern European countries (PWC, 2008).

**Table 1** Structure of PPP activities in CEE countries, breakdown by sectors

PPP activity	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	Ukraine
Roads	⊙	⊙	○	●	⊙		●	●	⊙	○	⊙
Heavy railways		○				○	○				○
Urban railways		○	○	○		○	○				
Airports	●	○		○			○	○	○		○
Ports	⊙										○
Water, waste	●				○	○		●	○	●	○
Housing		⊙	●	●	●		○	⊙	○		
Accommodation		⊙		●	○		○		○		
Defence		○	○								
Healthcare		⊙	○	⊙	○	○	○	⊙	○		
Prisons		○		●	○		○				
Schools		○	●	●	○	○	○				
Sports and leisure		⊙		⊙		⊙	○	⊙	○		

○ Discussions ongoing      ⊙ projects in procurement      ● a number of procured projects

Source: PWC, 2008.

The legislation relating directly to the selection of the private partner in tenders in Slovakia is the Law No. 25/2006 Z. z. (zákon č. 25/2006 Z. z. o verejnom obstarávaní) with amendments. The other related Laws are Law No. 523/2004 Z. z. (zákon č. 523/2004 Z. z. o rozpočtových pravidlách verejnej správy) and Law No. 5823/2004 Z. z. (zákon č. 583/2004 Z. z. o rozpočtových pravidlách územnej samosprávy) with amendments.

The Ministry of finance of the Slovak republic presents on the website a complex overview of the legislation and planned measures to ensure information to the processes according PPP (The Ministry of Finance of the Slovak Republic, 2009).

Although there are some intentions to develop concepts for the culture sector in Slovakia with a focus on the implementation of PPP in some areas of culture (The Ministry of Culture of the Slovak Republic, 2006, 2011), there are no relevant PPP projects in procurement until now.

## **2 Culture financing methods**

In a broader sense, the term culture opens room for various definitions. For example, it may include all values and standards of social conduct that form and constantly create a structure in the society. The term culture covers both material and spiritual values, as well as systems affecting the behaviour and communication among people (Gottschalk, 2006). UNESCO defines culture as assets in the field of archaeology, history, literature, art and science. These assets are individually very important for each nation, whether of secular or religious reasons (UNESCO, 1970). A narrower definition of the term culture may encompass art only, such as music, literature, fine arts, theatre, etc. (Singer, 2003).

The Ministry of Culture of the Slovak Republic lists on its website responsibilities for respective areas relating to state language, protection of monuments, cultural heritage and libraries, art, copyright, education activities and artistic folk production, presentation of the Slovak culture abroad, relations with churches and religious societies and the media (The Ministry of Culture of the Slovak Republic, 2011).

Within this space, market players come from both private and state sector, or possibly from mixed forms. The activities of participants from the private sector are governed by market principles even in the field of culture, as certain cultural services and assets are produced and introduced to the market with the aim of making profit. The cultural sector is partially subjected to direct economic activities of participants from the private sector who, by their operation, create added value (Singer, 2003). Despite the interconnection with the private sector, in culture the majority of assets on the market are traditionally offered by the state / public sector.

Indirectly, culture has a great effect on the other sectors of the economy – it improves quality of life, attractiveness of a region for tourism, thus improving competitiveness of a country (Singer, 2003). Recently, the impact of culture on tourism has been often mentioned in Europe as these two areas closely relate to each other. With globalisation and homogenisation of education (especially in foreign languages), culture is available to a wider group of population. The opening of borders and better

transportation options improved the mobility of population in Europe. The European sociologists report findings showing significant change in the population's values over the recent decades, represented by preference of spiritual over material values (Klein, 2007).

Because of its significance and indirect impact on a country's economy, culture should be the public sector's task. Positive externalities of culture frequently lead to higher interest among private companies, which expect benefits from their cultural activities and more reputable position of a company on the market. They also expect positive impact on employee motivation and intercompany culture (Heinze, 2008).

While the funds necessary for cultural activities of private sector participants stem from the results of their own economic activities (or from obtaining funds on a capital market) (Gottschalk, 2006), the public sector funds its activities from allocated contributions from the public budget. In addition to these sources, the funding from the state also takes place through subsidies or indirectly through legislative support in the form of tax reliefs.

It is the very positive influence of culture on the society as a whole (be it direct or indirect) that proves the necessity of its financing by the public sector. Cultural assets provided by the state represent public assets that are accessible to all consumers – nobody should be excluded from receiving their benefits (Gottschalk, 2006). All market participants are able to use these assets without anyhow limiting each other.

For example, a statue or monument open to the public will not lose its artistic value by a higher number of visitors (Gottschalk, 2006). And because a private business would have difficulties determining the price of the artistic value, which the consumers would be willing to pay for culture (Gottschalk, 2006), such business would not provide assets in its portfolio to the market (Singer, 2003). This means that the state's intervention in market processes and the offer of public beneficial cultural assets by the state sector is a benefit to the public. In this case, the result of offering the assets by a private business would not be identical with the result of the state's offering. Therefore, state intervention as correction of market processes is justified and desirable (Knorr, 2005).

Still, not all cultural assets have a character of public assets. A work of art forming part of a private property is hidden from public view and is also subject to competition of interest by several potential owners. Due to this reason, it is assumed that all cultural assets, which are to be supported by the public sector, must exhibit at least one attribute of a public asset (Singer, 2003).

In practice, culture financing concepts are often combined, although the share of the state budget in culture clearly covers more expenditures than all other financial sources combined (Klein, 2007).

The methods of financing culture range from direct allocation of funds from the budget, through influencing funding by lower taxes (which constitute an indirect form of government support) (Heinze, 2008), but also in the form of donations (Klein, 2007) and access to subsidies from the private sector – sponsoring, and also by the possibility of public-private partnership (Heinze, 2008).

The public sector has been long engaging private sector to fund culture. As an example we may state time-limited financial or material, contractually defined sponsor-

ship of culture provided by private market participants (Gottschalk, 2006). A sponsorship relation takes place through the interaction between a sponsor (private person, company or organisation) and a sponsored participant on the basis of a sponsorship agreement. Frequently, a sponsor pursues its own objectives, such as sponsor's marketing position on the market, creation of public image or generation of interest among customers by demonstrating social responsibility in this social area (Gottschalk, 2006; Klein, 2007). Sponsors deliberately target cultural projects that cannot go unnoticed among their clients. A sponsorship contribution need not be of financial character – it may also involve patents or material investments. A sponsorship agreement may or may not be time limited (Singer, 2003).

Clubs, societies, associations, foundations and organisations assume the role of an intermediary between donors on the one hand and donees on the other hand. The intentions of both financial and non-financial donors vary and focus on supporting the society (Singer, 2003) - unlike with sponsorship, donors do not pursue specific targets in return for providing financial contributions (Klein, 2007). Cultural foundations (of public or private nature) may promote one cultural facility or several projects at once, which may be, for instance, also directly organised by a foundation (Klein, 2007).

The Ministry of Culture of the Slovak Republic lists on its website information regarding options for funding cultural projects. Those are, for instance, specific grants from the Ministry of Culture (Pro Slovakia Fund), subsidies from self-governing regions, cities or municipalities, grants from foreign partners, embassies and their cultural institutes (Goethe Institute, French Institute, British Council), international organisations (International Visegrad Fund, European Culture Foundation, Central European Initiative Cooperation Fund, Norwegian Financial Mechanism and EEA Financial Mechanism, Anna Lindh Foundation) and MEDIA programme (The Ministry of Culture of the Slovak Republic, 2011).

Presently, it is not possible to find any information about PPP projects in the field of culture on the Ministry of Culture's website. Except for the planned (yet unimplemented) construction of the building for the Slovak Television and Slovak Radio in 2008, no specific projects emerged in Slovakia in the field of culture that would be implemented.

This despite the fact that the PPP method in the field of culture represents a bridge between sponsorship and foundation, while suitably combining advantages of both models. The financing of culture through public-private partnership exhibits signs of sponsorship and funding without a foundation. A partner from the private sector may or may not be interested in a public presentation of its company in connection with the project, but, at the same time, for the entire duration of the project the partner's activities are aimed at the efficient financial result – generation of profit. In spite of having different motivation, both partners pursue together one common goal – successful implementation of a cultural project (Gottschalk, 2006).

### **3 PPP in culture**

In comparison with established sectors (such as infrastructure), PPP projects account for a very insignificant share in the cultural field even in the international con-

text. However, higher mobility of Europeans, the issue of tourism's competitiveness, as well as the overall increase of the share of services in developed economies could lead to a significant change in this very area.

Based on sociological surveys, particularly in the era of globalisation, people assign more importance to cultural heritage and feeling at home (Heinze, 2004). The activities of the cultural sector, which are limited by the lack of funds, could come back to life thanks to numerous options of utilising funding through PPP and thus promoting the value of culture and thereby the importance of region and tourism.

PPP projects bring to the public sector concepts and mechanisms from the private sector (Budäus, 2006) because they represent concepts improving profitability through synergies, cost savings and enhanced processes. With PPP models, it is important to define long-term contractual relations, the planning phase and the project goal, risk management, financing, as well as the creation and maintenance of the projected work.

In practice, there exist several forms of cooperation between the public and private sector. The most important breakdown of PPP models lies in the division and scope of tasks and risks, as well as in contractual ownership relations of legal and economic nature.

By setting an exact schedule and analysis of investments in the project, the likelihood of situations and procedures involving excessively high risks gets significantly reduced (Stember, 2006). Each partner's role is to take responsibility for that particular risk, which the given partner is best able to influence and control (Jansen, 2007). For example, a lease model in PPP will ensure that a partner from the private sector will have strong interest in the highest quality of the project's outcome and also in the observance of all scheduled deadlines. A comprehensive view of a PPP project also allows for continuous overview of connections between costs of investing, financing and operating the project (Bräunig, 2007).

As a contractual cooperation of permanent character aiming at the common use of resources and thus achieving synergies and other, mutually complementary goals – a PPP project serves as an ideal funding instrument. Whereas a private partner enters a common project while expecting profit, a partner from the public sector pursues objectives such as cost savings, utilisation of private resources such as know-how, transfer of knowledge and fulfilment of its public-beneficial duty, which involves broadening of the cultural offer (Gottschalk, 2006; Heinze, 2008).

One of the advantages of PPP is the support of public investments and the economy at a time when the public sector does not have sufficient funds but needs to implement important investments in public infrastructure. Any eventual problems on international markets may temporarily slow down these projects, but certainly not stop them as they continue to represent interesting and safe investments for banks.

Therefore, PPP projects in culture could provide several advantages at once. In the majority of projects, multiple private partners participate together with a public partner in implementation – by which the source of financing exhibits higher stability and the progressive and long-term project implementation is secured. Since it is very difficult to change the contractual basis of cooperation, it serves as prevention of often occurring suspension of projects early in the planning phase (Gottschalk, 2006).

The problematic area for PPP in culture is certainly the fact that many potential projects do not come with a sufficiently big investment potential. Thus they become unattractive to private investors since the volume of transaction costs increases.

The public may also fear the commercial influence on culture whenever the state plans to hand over or sell a cultural facility to a private partner under PPP project. Due to this reason, the state and representatives of cultural organisations rather favour a funding method involving sponsorship, donations or a budget from public sources.

For a private partner, the possibility of participating in a PPP project opens a new market. It is important to realise that a private partner could, with the partner's knowledge of the market, be able to utilise full potential of the assets and approach new consumers on the market. Thanks to their experience, existing sales structures and marketing know-how, private sector businesses are able to communicate professionally the cultural value of the assets on the market. By this a region becomes more attractive to tourists. Should, for instance, organisations promoting tourism, as representatives of the private sector, cooperate more actively with the public sector, they might serve as the missing bridge between cultural offer and tourism and thereby establish successful long-term public-private partnerships.

## **Conclusion**

The future of PPP projects in the field of culture depends on several factors affecting the success rate of their utilisation on the market. Any public-private partnership may be successful only when market externalities caused by the market are overcome, such as information asymmetries and distrust caused by them (Weiermair, 2008). Contractual relations and emphasis on selection of partners represent two important factors influencing the success of any PPP project.

A private partner must be assured that such partner is in a long-term and stable partnership enabling the participants to gain appropriate position on the market. This will secure interest by a private partner in providing necessary resources.

A partner from the public sector should actively participate in the project during its implementation, especially as an "opinion maker" for the public and support the project in this way. The project's life cycle usually requires greater participation by the public partner at the start of the project when the risk is highest.

The reasons for this risk are the initial difficulties caused by public distrust. The opposition to integrating the private sector into a typical public offer in the field of culture will very likely increase with the artistic value of a given cultural project (PWC, 2003). Here it is clear what an important role the public sector has at the start of a project. At a later project stage, during implementation, a more active approach by a private partner is once again expected (Weiermair, 2008).

One fact is of great importance particularly with the frequently cited problems associated with the financially unprofitable operation of cultural facilities. In addition to direct financing, PPP projects could as well introduce the development of new concepts to cultural activities that would enable cost-feasible operation of a project. In addition to finances and knowledge, the benefit therefore also comes with the innovation of



economic management in the field of culture, which will be provided by a private partner.

The already mentioned exaggerated influence of the commercial approach to culture and its impact on the long-term development of the society is a major disadvantage that must be considered when selecting cultural projects suitable for cooperation. It is necessary to emphasise that in some cultural areas the state offer continues to represent the single option for maintaining the high level and broad dimension of the culture on offer.

Tourism and culture could well represent a suitable compromise for PPP projects. The traditional state cultural sector is to be interlinked with the traditional private tourism sector and open a convenient possibility of how to receive funds to cover operating expenses of national cultural institutions and thereby relieving the public budget. Since the public sector tends to possess insufficient information on the market needs, it will be the very cooperation with the private sector that will allow a reduction of costs and a better response to customer needs (Weiermair, 2008). Should tourism join the cultural sector in a PPP partnership, it would improve not only interconnection of various parts of the economy within a single unit, but also increase the importance of the entire region. Considering the public character of cultural assets, it will strengthen the improvement of a cultural offer and increase the living standard and importance for the economy.

The getting together of European countries and intertwining of their economies places higher demands on public sector. By limiting the possible indebtedness of state treasuries because of strict Maastricht criteria, it is appropriate to seek new funding options so that the cultural sector may continue to evolve. With certain assets and services provided to the general public, it is not always important whether their supplier is a public or a private partner, but of the essence is the relationship between the price and the result. The task of the cultural sector in the years to come should be to discuss on an international level in order to have more precise criteria defined for the use of public-private partnerships in culture. Although Slovakia was late in starting with the implementation of PPP, on the other hand the country may learn from the experience of other countries.

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