

## Culture-Minded Sustainable Investors, Their Inspiring Way

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In this exceptional period of coronavirus pandemic, culture is coming to the rescue of the confined citizens and paradoxically seems to be under-reported in the priorities to be taken into account in building the world afterwards. The cultural industries, activities or practices directly associated with the creation, production, distribution and enjoyment of central cultural content (heritage, visual arts and crafts, books and press, audio-visual and interactive media, cinema, music, design...) (1) are rarely invited to the table of the influencers who are elaborating the future economic, social and ecological pact while neglecting the cultural dimension of this hoped-for new way of life.

Artists fear that culture is the last wheel in the carriage of lockdown and are multiplying calls to the public authorities for financial support and the reopening of cultural venues as soon as possible.

Their cause, heard and supported by certain local, national, European and international institutions, is given greater resonance when representatives of the medical profession take it up themselves. These heroes engaged in the daily struggle against the CoViD 19 are well aware of the benefits of culture for individual well-being and social cohesion.

Professor François Bricaire, an infectious diseases specialist and member of the French Academy of Medicine, was asked to lead a working group and to interview about thirty cultural personalities in order to write a report submitted to the French government on last May 1st. In this report called "Proposals for a process of reopening performance venues, filming and rehearsals", Prof Bricaire firmly states : « Performance venues must be part of a deconfinement plan because they are an essential good". The Professor goes on explaining that cultural activities are « a response to the essential need of populations to cultivate, inform and entertain themselves, as well as the need for a culture of peace. They bring certain territories and places to life through the tourism they generate. But, more than anything else, they are necessary for the joy of life of all generations and for social cohesion. »

This conviction that culture is part of the common good and plays a fundamental role in building harmonious societies based on human dignity is also shared by some responsible investors, albeit few in number. This note aims at highlighting the reasons why these pioneers have integrated culture in their sustainability strategy and how they are delivering on their commitments.

### **To « build better futures »...**

« Human dignity » is explicitly mentioned in the introduction the Principles for Responsible Banking, launched in September 2019 in New York City, during the annual United Nations General Assembly : « Banks play a key role in society. As financial intermediaries, it is our purpose to help develop sustainable economies and to empower people to build better futures. [...]. We believe that only in an inclusive society founded on human dignity, equality and the sustainable use of natural resources, can our clients and customers and, in turn, our businesses thrive. »

These statements approved by 130 banks from 49 countries, representing more than USD47 trillion in assets, echo many of the previous commitments made by the international community. For more than 50 years Unesco has been constantly emphasizing the importance of culture for social cohesion in its various Declarations or Conventions : « Culture is the essential condition for genuine development” (Mexico, 1982) or “Principle of sustainable development, cultural diversity is a rich asset for individuals and societies. The protection, promotion and maintenance of cultural diversity are an essential requirement for sustainable development for the benefit of present and future generations” (Paris, 2005).

To facilitate the link between the world of finance and the world of culture, the Dialogue of civilizations Research Institute (DOC) and Respethica launched the "Sustainable Finance and Culture Initiative" last year. On the occasion of the DOC Rhodes Forum (October 2019), the Rhodes Call to advocate introducing culture in the sustainable finance agenda was drafted.

In order to better share this initiative, it was decided to interview some committed investors to understand to what extent they claimed the contribution of culture in their sustainability vision and investing practices.

Within the framework of this study 10 banks were selected on criteria based on their sustainability commitments. A request for an interview supported by a questionnaire was sent to them. Out of these 10 banks (among which 7 signatories of the Principles for responsible banking : 5 European and 2 from North America), four of them gave a positive feedback : Triodos (Netherlands), La Banque Postale (France), (both signatories of the Principles for responsible banking), Banca Etica (Italy) and Merkur (Denmark). These four banks have different histories and profiles but all of them have included culture in their responsible investing thinking directly or indirectly.

It is worth mentioning Triodos, Banca Etica and Merkur are members of the Global Alliance for Banking on Values, an independent network of banks using finance to deliver sustainable economic, social and environmental development.

The purpose of the study is to provide some answers with the three main questions asked to these banks : Why did you include culture in your sustainable development strategy or in your questioning as a responsible bank ? How do you assess the impact of culture in your results and strategy ? What are the reasons why many investors do not consider investing in the cultural sector ?

### **Culture and sustainability : why does it make sense ?**

Regarding the first question Triodos Bank stands out as a pioneer. Established in 1980, Triodos with €17,7 billion assets under management (2019), has identified and integrated culture as a driver of positive change along with social and environment since its creation.

« We finance arts and culture because they contribute to society by connecting ideas and people, and reflecting, stimulating and encouraging positive change. Arts and culture play an important role in the personal development of individuals and the cohesion of society as a whole. Creative expression provides new perspectives, inspires and connects people.» Triodos Bank's Sr. Communications Officer Marcel Proos said.

The annual report even talks about the value generated by culture when saying: «We only finance and invest in companies, institutions and projects that add cultural value and aim to benefit people and the environment ». This recognition of cultural value is particularly purposeful when Triodos states its main mission consists in helping « create a society that promotes people's quality of life and has human dignity at its core. » « Human dignity » again...

« We have not identified culture explicitly as a specific driver but have associated issues related to culture to our commitment to promote human rights. », Luisa Florez, Head of Sustainable Thematics, Research and Portfolio Management at La Banque Postale Asset Management (LBPAM) said.

Subsidiary at 70% of the Banque Postale, a French state-owned public limited company established in 2005, LBPAM is committed to social inclusion, territories and the environment. With € 232 billion assets under management (2019), LBPAM is the first French investor announcing in 2018 to become « 100% Social Responsible Investor (SRI) » by the end of 2020 », Luisa Florez said. « It means we are integrating social and governance criteria into our investment decisions in a systematic and measurable manner. » The SRI team measures corporate and state commitment as well as responsibility, opportunities and risks according to « **GREaT** » approach : responsible **G**overnance, sustainable

management of **R**esources, **E**nergy transition and development of **T**erritories. « Under the « R » - sustainable development of **R**essources - criterion, human rights and working conditions are given a prominent place », Luisa Florez said.

Banca Popolare Etica is a cooperative bank created in 1999 as a result of a participative process realized by almost 12.000 shareholders (citizens and nonprofit organizations) that has helped Banca Etica in collecting the share capital necessary to start its activity as a bank (over 6 million euros). Today, Banca Etica is made up with three entities: Banca Popolare Etica which counts 43.695 shareholders, 95.064 clients and 1.7 billion euros of savings collected and under management ; Etica SGR, the asset management company with 4.6 billion of assets under management and 261.000 clients and Ethical Finance Foundation.

The place of culture in Banca Etica's sustainability vision is linked to its history and values. The cooperative bank was established with the support of a number of committed individuals and organizations who joined forces to create a credit institution based on ethical finance principles: transparency, participation, sobriety, efficiency and attention to the non-economic consequences of economic actions. Thanks to the savings accumulated, Banca Etica funds projects aimed at welfare, social economy, environmental protection, innovation, international cooperation and culture.

« Since its creation, Banca Etica has supported cultural projects. Because once you take an interest in the community, you understand that culture plays an essential role. Culture promotes the well-being of individuals and helps the community to strengthen its will to live well together", Ugo Biggeri, co-founder and CEO Banca Popolare Etica, said.

This strategy is also implemented through Etica SGR, the asset management unit of Banca Popolare Etica. Simone Grillo, who works as researcher for the Marketing Strategy Office of Banca Etica, explained : « Etica SGR invests in cultural projects because culture is an important instrument to promote inclusion, cooperation and economic development. Etica SGR is the only asset management company in Italy which invest exclusively in social responsible funds ».

In Denmark, Lars Pehrson founder and CEO of the Merkur cooperative bank, has considered culture to be a cornerstone of his bank's business since its founding in 1982. « It is part of our basic thinking, that culture is an essential element in a sustainable and just society. It is important to understand that we think culture and education as belonging to the same sphere in society, since both are essential for the development of the individual personality », he said.

With 34,299 clients and 7,637 shareholders, Merkur Cooperative Bank conducts its banking business on the basic understanding that every human individual is intrinsically valuable and possesses the potential to develop his or her talents in freedom and has the opportunity to take responsibility for our society and our shared livelihood. The amount of its loans is close to € 223 million.

From the very beginning of its the 2019 annual report, the bank's message is crystal clear while describing among Merkur's most significant societal ideals : « Sectors for culture, research, health and education that enjoy the greatest degree of freedom possible when it comes to the content of services provided, and which are free of any business or political special interests. This is decisive for the capacity of individuals to achieve the best conditions to develop their abilities. We finance independent schools, boarding schools and folk high schools, artists, instruments, music venues, cinemas, theatres and other cultural institutions, reputable alternative practitioners and medicine, care services and more. »

## How to assess the impact of culture ?

Triodos, Merkur, Banca Etica, and La Banque Postale Asset Management assess the impact of culture in their investing practices through different approaches.

The evaluation carried out by Triodos takes into account the percentage of the loans dedicated to culture (13% of the total amount) and the impact these investments have on people. In the 2019 integrated annual report Triodos bank describes this impact through key indicators : « As a result of its lending and investments activity to cultural institutions across Europe, Triodos Bank helped make it possible for 25.8 million visitors (2018 : 22.6 million) to enjoy cultural events during 2019 including cinemas, theatres and museums. This represents the equivalent of 35 cultural experiences per Triodos Bank customer. Triodos Bank and Triodos Investment Management finance also helped approximately 3,600 artists and creative companies active in the cultural sector (2018 : 3,300). Theatre, music and dance productions from creative companies were attended by 1.7 million people (2018 : 1.2 million). New productions from the film and media sector financed by Triodos Bank (most importantly in Spain) were seen by approximately 9 million people (2018 : 13 million). Triodos Bank and Triodos Investment Management also financed organisations that provided 4,600 affordable spaces for cultural activities such as workshops and music courses (2018 : 4,000). »

Marcel Proos acknowledges that there are some types of qualitative impact that are impossible to describe in numbers : “Instead we are transparent about all our loans and investments so stakeholders can judge the impact of this work themselves. We use stories and case studies to illustrate the impact this has on the lives of the people we finance. We hope the combined ways we communicate - numbers and story telling- provide an increasingly rich picture of the impact of our activities.”

Merkur’s CEO Lars Pehrson shares this rigorous process : “It’s is part of the bank’s basic understanding of its role. We “support” but we never “subsidize”. That means that the financial basis of the project must be solid as for any other financed company or project. This can be in the form of cooperation agreements with municipality, size and composition of member base or other indicators. We build on common sense and through personal meetings we get an impression of the enthusiasm and also the practical realism behind the project. So if we decide not to finance, it is often because those mentioned elements are not strong enough. The project must be able to pay the cost and risk premium for finance. We measure the funded cultural projects’ financial return through ROE (Return on equity)»

Banca Etica assesses the relevance of its investment choices based on its specific banking experience founded on relationships: the focus on people and organizations is guaranteed by a network of bank branches and financial advisors all over Italy. Ninety groups of volunteer members work to ensure the development of local relations, promoting the Ethical Finance culture and the possibility of actively participating in an economic democracy project. This network of volunteers take part in the selection of funded projects. « When a legal entity ask credit to Banca Etica, the Bank realize two different evaluations : first, an evaluation of economic sustainability realized by our branches; second, a social and environmental evaluation realized by our volunteer local shareholders, trained by Banca Etica (in 2018, our volunteers has realized 1.046 social evaluations). For particularly complex cases, the evaluation is realized by the Bank. », Simone Grillo says. In 2019, Banca Etica gave credit to cultural activities for 37,3 million euros, contributing to the realization of 4.123 cultural events.

Merkur’s of which most important activity is lending, dedicated 12,5% of its loans and guarantees to Education and Culture in 2019, which represents 482 funded projects. We can read in the Merkur’s annual report : « When financing of culture, the emphasis is on financing of activities and projects that allow people to practice their creative abilities or to be stimulated by the creativity of others. [...] Our definition of culture stems from the belief that free expression and creative stimulus are at the core of human development. »

These words remind us the 1982 Unesco Mexico City Declaration on cultural policies (mentioned at the beginning of this article) that states : « It is culture that gives man the ability to reflect upon himself. It is culture that makes us specifically human, rational beings, endowed with a critical judgement and a sense of moral commitment. It is through culture that we discern values and make choices. It is through culture that man expresses himself, becomes aware of himself, recognizes his incompleteness, questions his own achievements, seeks untiringly for new meanings and creates works through which he transcends his limitations. »

Another way to assess the impact of culture in responsible investing practices consists in considering culture-related issues through the human rights lens.

As soon as 2001, La Banque Postale Asset Management (LBPAM) alongside the International Federation of Human Rights (FIDH) groundbreakingly launched a SRI Fund Libertés et Solidarité now called LBPAM SRI Human Rights.

« For nearly 20 years, it has made it possible to invest in an Impact Investing management, in favour of the defence and promotion of the human rights through a unique partnership with the FIDH. This recognized association of public utility thus benefits from strong support for its actions thanks to the sharing of the income from the fund. The management is diversified, invested in euro zone bonds and up to 40% maximum in international equities. The investment universe is defined according to FIDH's analysis, in consultation with and under the supervision of a FIDH Ethics Committee. LBPAM then makes the selection. As a true partnership of conviction, together FIDH and LBPAM carry out the following actions of engagement with companies when human rights violations are observed during the analysis. The objective is to help these companies to implement the corrective measures . » Léa Bozzi, LBPAM ISR Human Rights Analyst explains.

To be selected in this SRI Human Rights Fund, companies' assessment relies on about sixty indicators including some related to issues such as gender equality, rights of autochthonous peoples, fight against discrimination, migrants and refugees rights, editorial independence, freedom of expression, cultural diversity of artistic expressions and content.

Describing its business model in its 2019 integrated annual report, Triodos highlights its purpose : « A values-based bank, enabling people to use money consciously to create a healthy society with human dignity at its heart » and reminds Triodos its fundamental commitment to respect human rights since its inception.

This human rights approach thus leads the bank to actively finance refugees through several initiatives across Europe. In Spain, for instance, Triodos works with the Fundación Secretariado Gitano, an organisation that defends the rights and culture of the minority travelling community. It also finances The Belgian Committee for Refugee Assistance (CBAR) (2), an NGO that provides legal aid to refugees as well as to their lawyers and social workers active in the field.

### **Why don't these forward-thinking culture-minded sustainable investors get more followers ?**

The four responsible banks interviewed highlight some reasons that make many investors reluctant to invest in culture and art sectors. They could be synthesized into three main themes.

#### ***The mutual lack of knowledge of the financial sector for culture and vice versa***

Triodos, Banca Etica and Merkur share an in-depth knowledge of the cultural sector. This knowledge is based on the conviction culture is a mainspring of the sustainable development of peoples and inclusive, creative and peaceful societies. Culture is one of the fundamental principles of their concept of sustainability. It's part of their genes and history.

On its corporate site, Triodos defines its « sustainability » commitment very clearly: « We only finance companies that focus on people, the environment or culture. »

« More art and culture as means to improve the quality of life for everyone » Ugo Biggeri, Banca Etica's founder and CEO said. The first Italian ethical bank has a great knowledge of people's needs through its innovative banking experience founded on the development of local networks of shareholders and savers. The focus on people and organizations is guaranteed all over Italy and Spain where Banca Etica operates since 2015. « These networks are very helpful to spot and promote interesting cultural initiatives that need to be funded. Banca Etica can help cultural entrepreneurs with too small and unsustainable funding requests to improve their project and to make them more robust. This organization in the field is effective in increasing the chances of success and outreach of cultural projects », Ugo Biggeri added.

Banca Etica helps cultural entrepreneurs to improve their business skills. « Financial literacy and training are very useful to cultural organizations. That is why we give financial, fiscal and strategic guidance to them so that they involve themselves in the economic process », Simone Grillo said.

This guidance is also a priority for Triodos who claims a personal and relationship-led approach : « We focus on long-term relationships, based on transparency and a shared commitment to work for a better world. You'll build up a personal relationship with one of our investment managers who understands your organisation, the challenges you face, and the world you work in. » We can read on the bank's site that gives many examples of successful partnerships.

### ***The financial and societal impact of the culture-related activities is unclear***

« Culture as long as other social issues are not integrated yet by the responsible investors because of the lack of « materiality ». For determining materiality (3), investors need an historical view on how financial markets have priced these issues. It is true this approach is not forward looking », Luisa Florez, Head of Sustainable Thematics, Research and Portfolio Management at La Banque Postale Asset Management (LBPAM) said.

To tackle this « materiality » issue, Triodos has developed an 'Impact Prism' mechanism which assesses the sustainability value of all the bank's loans, using social, environmental and economic 'stocks' to provide an overall picture of the impact of its lending and investment. "In addition, we have a 'purpose tool' which assesses the (sustainability) motivation behind a project, how it is embedded in the community it serves and how it is organised itself to reflect its sustainable goals, and how well this translates into economic reality. We apply this to cultural loans just as we do to all others." Marcel Pross said.

It seems this good practice remains poorly shared within the community of investors who need more concrete information and more financial terms to assess the cultural sector's contribution to the common good.

The investors' « good will » must be fostered. « It is a question of investing resources into the building up of competencies within the bank. Many banks will probably see the cultural sector as a marginal segment without much business potential. », Lars Pehrson, Merkur's CEO, said.

Yet the sector's potential is amply demonstrated at the macro-economic level,. In the USA, arts and cultural economic activity accounted for 4.5 percent of gross domestic product (GDP), or \$877.8 billion and employed more than 5 million people in 2017 (4). In the EU-28 nearly 9 million worked in the field of culture in 2018 (5). In cultural employment, almost 60% of people had a tertiary level of educational attainment (around 35% in total employment). Across the European continent, cultural industries accounted for 4.2% of GDP (2017). In France, 1.3 million people received direct or indirect, primary or secondary income from a one-off cultural or creative activity in 2018. The sector's

value added accounted for 47.5 billion € in 2017 or 2.3% of the GDP, an economic weight akin to the food industry and 1.9 times more important than that of the automotive industry (6).

These data highlight the economic and social weights of the arts and cultural activity as well as the high educational level of people employed. « Cultural entrepreneurship is booming. Many institutions are wholly or partly commercial and target a wide and diverse audience. Triodos Bank fits in to the dynamics of a sector with this entrepreneurial focus and finances innovative cultural entrepreneurs to help increase its impact” Marcel Proos said.

***Culture is not really part of the 17 UN Sustainable Development Goals international vocabulary***

Merkur’s CEO Lars Pehrson makes the point : « Culture as a concept is by and large absent in the 17 sustainable development goals, which we find regrettable. Merkur has always emphasized the role of culture for the evolution of society and the importance of the free, personal development and general education. In our perception, the area of culture is central to developing a more sustainable society. This is a perception that we still hold and culture and education will remain core areas for Merkur to finance. »

It can be recognized that the UN SDGs do not provide investors with much incentive to consider the material issues of this arts and culture-related sector. At a time when more and more investors firmly declare they want to make a positive tribute to society and a positive change dedicated « to combating climate change or addressing environmental or social challenges in line with the UN Sustainable Development Goals », investors could further explore the potential of these arts and culture-related industries.

Initiatives from European Union, Unesco or the Agenda 21 Culture network, advocate for the inclusion of culture in the implementation of SDGs. The November 2019 European Council Resolution on the Cultural Dimension of Sustainable Development reminds: « That the inherent nature and intrinsic value of culture as well as the autonomy of the cultural sector and freedom of artistic expression are fundamental principles », acknowledges : « Culture, as a sector of activity, can be understood as a self-sustaining pillar in sustainable development. » and agrees « To step up our efforts to promote the cultural dimension in sustainable development »

« Building on a long-standing commitment to culture and sustainable development, UNESCO has aligned its work in culture to better address sustainable development challenges and opportunities. Sustainable development has increasingly been integrated into the guidelines, policies and strategies of UNESCO’s six main Culture Conventions, recommendations and programmes. [...] No development is sustainable without considering culture » Audrey Azoulay, Unesco’s General Director writes in the Introduction of the Unesco document entitled « Culture for the 2030 Agenda ».

This note aims at raising awareness about the above-mentioned banks’ good practices and achievements in integrating culture into the sustainability challenge.

This cultural mindset could also guide investors in their shareholders’ engagement policy towards the biggest media and culture-related industries which may sometimes be tempted to neglect certain human rights material for their sector (freedom of expression, stereotypes’ representation, media pluralism, editorial independence, cultural diversity, intellectual property protection, privacy...) on the grounds that shareholders lack of knowledge and therefore vigilance on these issues.

If culture is part of the missions of public institutions, this does not prevent investors committed in the common good or human rights from ensuring that their financing meets the needs expressed by cultural entrepreneurs. These entrepreneurs create jobs that are not easily relocated, that require valuable know-how and great creativity, consolidate social cohesion and give the most vulnerable

people the necessary self-esteem to take part in a common future. These cultural activities also contribute to the economic development and influence of the territories by generating direct and indirect revenues. Isn't social and financial return what responsible impact investors are looking for ?

Notes

(1) Source : Unesco Culture/2030 Indicators

(2) CBAR is the operational partner of the United Nations High Commissioner for Refugees (UNHCR) in Belgium.

(3) « Material/materiality: A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term. » The International IR Framework, International Integrated Reporting Council (IIRC), 2013

(4) Source : U.S. Department of Commerce's Bureau of Economic Analysis

(5) Source : Eurostat, Statistical Books, 2019

(6) Source : EY Panorama, Nov. 2019).

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