Viewpoint
Capital for Creativity
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Capital for Creativity

Impact investors have ignored the arts and culture sector, at the expense of the communities they seek to help.

By Laura Callanan

Creative industries have tremendous potential for economic and social impact. Experts such as British author John Howkins, who popularized the term “creative economy,” and urban studies theorist Richard Florida, who coined the term “creative class,” have demonstrated the power of creative people and sectors to strengthen communities and unleash growth.

Concurrent with the rise of the creative economy, we have witnessed a substantial growth in impact investing. According to “U.S. Sustainable, Responsible and Impact Investing Trends 2016,” $8.7 trillion in US-domiciled assets apply environmental, social, and governance (ESG) criteria in their investment analysis and portfolio selection.

As impact investing has developed, targeted investor interest and substantiated opportunities are finding dedicated investment products catering to a range of values, themes, and social issues.

We have not seen, however, the alignment of impact investing with the creative economy. According to the Global Impact Investing Network, zero percent of impact investment is in the arts and culture sector. This report was validated in 2015, when three impact investment advisory firms—Veris Wealth Partners, Tideline, and Bienville Capital Management—working independently could not identify impact-investment opportunities in arts, culture, and creativity for clients who requested them.

Because creative places (such as cultural institutions, cultural corridors, affordable housing for artists, and shared studio and work space for creatives) and businesses in creative industries exist in rural and urban communities of all sizes and demographics, strengthening this segment of economic activity can have far-reaching benefits. Creative places anchor communities and help foster cohesion and engagement at a time when our nation is divided and its values are tested. Creative businesses can also generate quality jobs.

With the United States facing public spending cuts to the arts, public media, and community development, we need ways for investors to deploy values-based capital to make up the difference.

BIG OPPORTUNITIES

We know creativity is investable. Arts and culture in the United States represent $730 billion, or 4.2 percent, of US gross domestic product, according to the National Endowment for the Arts and the US Bureau of Economic Analysis. Since this measure focuses on arts and culture, and does not fully reflect the culinary arts, fashion, digital media, design, and crafts, it represents a conservative assessment of the creative economy as a whole. The arts and culture sector is also one of the country’s most important exports, generating an international trade surplus of $26 billion between 1998 and 2014.

We also know that creativity has impact. In the “Community Development Investment Review (2014),” the Federal Reserve Bank of San Francisco documented how creative activity in low-income communities can strengthen economic development, encourage civic engagement, build resiliency, and contribute to quality of life. Since 1995, the Social Impact of the Arts Project (SIAP) at the University of Pennsylvania has further documented how the presence of cultural resources in low-income neighborhoods is “significantly” linked to better health, schooling, and security.

Yet today there are no dedicated investment products, funds, or strategies to help impact investors align their values and their capital with the creative economy. This does not mean impact capital is not flowing to the creative economy—it is just not doing so on purpose.

To be sure, there are significant investments in the creative sector through community development financial institutions (CDFIs), private financial institutions dedicated to delivering responsible, affordable lending to help low-income communities. The US Department of the Treasury’s Community Development Financial Institutions Fund deployed $460 million through the New Markets Tax Credit Program into creative places from 2004 to 2013.

Over the last 30 years, Local Initiatives Support
Lorrie Meyercord invested $1.2 million with the impact-investment intermediary Calvert Foundation through their Community Investment Note and subordinated debt. The Note is a proprietary debt security issued by Calvert Foundation since 1995 to channel capital to high-impact community development initiatives. Meyercord’s investment was targeted as part of a $2.5 million loan that Calvert Foundation extended to Artspace, a nonprofit real estate developer of live/work space for artists across the country.

Upstart Co-Lab made the necessary connections for this investment by introducing Meyercord to Calvert Foundation and Calvert Foundation to Artspace. Since then, five individual impact investors and one foundation have invested in the Community Investment Note in support of Artspace and affordable artist housing. This demonstrates how existing community-development investment products can be successfully deployed to creative places and businesses and can attract the interest of investors.

We have also found that there are plenty of opportunities. “Creative Places and Businesses: Catalyzing Growth in Communities,” a new report we issued with Calvert Foundation, describes demand for impact capital among creative places and businesses over the next five years throughout the United States. We highlight 26 projects in 14 states, with total project costs of $1.5 billion. While this pipeline of investable projects is by no means exhaustive, it demonstrates the nature and scale of opportunities available.

For example, CDFIs RSF Social Finance and Crafty have invested $3.3 million and $5.2 million, respectively, in Equinox Studios, LLC, a 100,000-square-foot affordable work space in Seattle that is 100 percent artist-owned. It provides studios for more than 125 artists and artisans, including blacksmiths, sculptors, painters, ceramicists, glassblowers, leatherworkers, woodworkers, and photographers. In response to demand for 70,000 square feet of additional work space by these and other local artists, Equinox is currently looking to borrow an additional $10 million to acquire two adjacent buildings.

E-Line Media, an entertainment and educational publisher, harnesses the power of social impact video games to help youth understand and shape the world. With its partner the Cook Inlet Tribal Council, this creative business published the award-winning adventure game Never Alone, which shares traditional Alaskan stories, music, and art through the modern medium of the video game. E-Line Ventures LLC is capitalized by individual and institutional impact investors, and assembles financing from government, philanthropy, and impact investors for individual game titles.

Beyond community development, artists and designers are founders of some of the leading companies of the Internet age, such as Airbnb and CrowdRise. B Corporations such as Kickstarter and Etsy have further demonstrated the potential crossover between sustainability and the creative economy. In fact, 10 percent of US B Corporations—for-profit companies that are certified for meeting social and environmental standards—are in creative industries. The opportunity to garner a financial return and create social impact through art, culture, design, and innovation is only growing.

That impact investing has not yet connected to the creative economy is confounding, especially given ample supply and demand. Our research examined investable opportunities in the creative economy that have the potential to stabilize threatened communities and generate quality jobs. We also spoke with impact-investment wealth advisors such as Veris Wealth Partners, Sonen Capital, Tideline, and Cambridge Associates, and confirmed that impact investors have been requesting such opportunities.

I recognize that such efforts face hurdles. The creative economy is not yet recognized as a distinct segment of impact investing, and targeted financial products, standards, and metrics all need to be developed. But if we figure out how to bring the capital, creative people will find the solutions. When creative people pursue businesses that have a social purpose, they can have a catalytic impact on job creation, the economy, and social well-being. And that benefits everybody.