Impact investing in the cultural sector

ilgiornaledellarte.com/articoli/-l-investimento-d-impatto-nel-settore-culturale/135414.html

Capturing the intangible in cultural funding. From the commentary of the Creativity Culture Capital report

The occasion for this note is the release of a report edited by Fundación Compromiso, Nesta and Upstart Co-Lab, on the role that impact investing can play in cultural and creative industries. The question is: are we in the presence of new ways of financing culture, which deeply needs it?

What we're talking about

Let's go into the definitions of impact investment and the cultural sector that the report gives. The first is any “investment in companies, organizations and funds made with the intention of generating social and environmental impact together with a financial return”. The second is the sum of “ethical fashion, sustainable food, social impact media, other creative industries and places of creativity”. “Other creative industries” in turn are “other facilities, inputs, production and distribution organizations in the arts, design, culture and heritage sectors that are sustainably managed, provide quality work and have a social impact.”

We are therefore talking not about donations, but about investments; money granted in exchange for an impact and also a financial return: modest and/or deferred over time (thanks to "patient investors"), but which cannot be -100% as in a donation. The report then defines a broad cultural sector, which hosts very different activities, only some of which reside within the perimeter typically understood when talking about the core of culture, heritage and entertainment; a perimeter that lies somewhat marginalized in the residual category "other creative industries".

Segments that are not “other CCIs” are easier to finance with the prospect of a return. The fear is therefore that it is an illusory prospect that part of the money invested globally in the creative economy (not much, if we only count the core of culture) could support our museums, arthouse cinemas and theatres. However, the emphasis on investment reminds us that cultural organizations are permanent if they activate a transformative and generative capacity in terms of both income and content and if they do not exhaust their economy in the annual revenue-expenditure cycle.

Cultural impact

Impact investing in culture can be looked at along three lines: its operators, its specific tools and the impact sought.

With reference to operators, these can be traditional institutional investors (whose allocation to these investments is residual, when it exists), private equity funds (impracticable for associations that do not have capital divided into investable shares), private debt (interesting , but dominated by high returns), of Social Venture Capital funds, of territorial development institutions and of foundations, including business ones. The latest ones of greatest interest in a reasonable time.

In any case, we believe that to be "investable" cultural institutions will have to think about their legal form. The option of assuming the organizational form of a social enterprise must be carefully evaluated to seek a more reassuring legal nature for financiers, a tested accounting structure and a preferential tax treatment, to be compared to that implicit in the Third Sector Code for associations, once this is finally certain. All this increases the possibility of accessing impact investing, enabling investment in capital and facilitating investment in other liabilities.

Among the financiers, often overlooked as "traditional", are the commercial banks. Extending credit to cultural organizations, with the intention of facilitating an impact, is a form of investment. Impactful note. The reflection is currently - also in Intesa Sanpaolo - under a magnifying glass which has the aim of investigating the possibility of evaluating cultural organizations with a tailored approach, planting the seeds for identifying the prodromal elements of a dedicated rating to culture; especially in a historical moment, like the current one, in which their traditional ratings are either in decline, due to the pandemic ruin, or in a deceptive recovery, for the same reason (when the public sector continued to provide money but the organizations were closed and not burdened by current costs). In the second case, the artists and all the workers suffered. But we don't believe this will last. For this reason the relative economic relief could be “deceptive”.

With respect to tools, impact investing has relied heavily on a construct known as social impact bonds. It is a complex object, characterized by the following circumstances: (1) it finances an activity of a non-negligible size; (2) the activity produces a social impact, measured by a non-complex and non-manipulable quantitative indicator; (3) there are investors willing to receive compensation linked to the achievement of certain levels of that indicator; (4) some actor – usually the public sector – willing to pay those investors, more so in case of success, so as to avoid greater own expenses. There are abundant technical difficulties in this setup. In the cultural context, the problem of the impact indicator is among the thorniest.

This introduces the issue of what type of impact is sought when funding core culture. For simplicity's sake, let's ignore the environmental issue. The most measurable impacts are the social ones, which however often lend themselves to manipulation. An additional number of visitors would seem acceptable if the objective was challenging; on the other hand, an excessive focus on attendance success could easily lead to blockbuster exhibitions that peter out without leaving any legacy, cultural travesties of a healthcare business, or other distortions. This illustrates that the scarcity of simple, non-manipulable and reliable socio-cultural impact indicators - in the sense of not encouraging deviant behavior - makes it difficult to design outcomes-based financial tools for culture.

The big question is: can the social component of culture produce, exchange and redistribute values so as to promote and stimulate equality, social inclusion and critical force? Can it pursue the goal of creating not only more audiences but, hopefully, heterogeneous audiences, equipped with complex cultural maps? The organization that creates social space builds social networks, becomes the bearer of collective requests from which a reduction in cultural and economic inequalities can follow. This would be making an impact.

Recently the desire to seek access to art, to its aesthetic and cultural values, is becoming evident within a digital experience such as blockchain which lays the foundations for a collective aesthetic revolution. The participatory and democratizing dimension of blockchain can open up further models of cultural financing, stimulating social inclusion, broadening the audience of aspiring collectors, and visibility for artists and organizations that are poorly represented and financed.

Conclusion

For all this, it seems necessary to understand what is new happening in the world, including cultural impact investment, with an eye to the medium term. To instead obtain immediate relief for the wounded Italian cultural sector, we believe it is more effective to eliminate what has less glamour, but already exists on a scale and is highly susceptible to improvement: both in public and private disbursements and in financing. Credit is included: refining the relevant evaluation, capturing the intangible aspects characteristic of culture and the predictive elements of sustainability, means building knowledge infrastructure and thus transforming atoms into molecules.

Silvia Angeli - Fashion&Luxury Manager, Art&Culture Advisor. Multifaceted profile in the fashion, luxury, design and culture sector. She graduated in Economics for the Arts, Culture and Communication from Bocconi University and graduated in Piano from the F. Morlacchi Conservatory of Perugia. She was Neil

Barrett's Managing Director. You are currently a strategic consultant for numerous Italian and international fashion brands, advisor to private equity funds, financial and cultural institutions. She is co-founder and coordinator of Opera Futura.

Marco Ratti – Intesa Sanpaolo. Trained as an economist (Bocconi and LSE), 10 years in the Comit research office, 10 years as an asset manager and the last 12 in social banking, first in Banca Prossima and now in the Impact Department of Intesa Sanpaolo. He has published widely both in specialized journals and in journalistic contributions on financial topics, most recently in cultural economics and impact assessment.
Article taken from AgCult's "Slow Readings" column, shared with the kind permission of the publisher