

Creativity, Culture and Capital: Why Impact Investors Should Recognize the Untapped Potential of the Global Creative Economy

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Friday
June 18
2021

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Impact investors have been missing a large swath of the global economy — one driven by women, youth, indigenous peoples and other workers and entrepreneurs who are often overlooked and underestimated: the creative economy.

One of the most rapidly expanding sectors of the global economy, the creative economy — comprised of industries like fashion, film, music and design — is predicted to grow to around 10% of global gross domestic product in the coming years. This growth could be potentially transformative in terms of income generation and fulfilling employment, as creative industries already employ around 30 million people worldwide through the formal economy, plus an estimated 300 million people within the global informal economy. The creative economy employs more people aged 15–29 than any other sector — and nearly half of the people working in the creative economy are women. And there's another fact that's equally relevant to impact investors: Businesses in the creative economy are tackling a range of issues that align with many of the key impact priorities, from climate change and health to diversity, equity and inclusion.

There are a vast number of creative enterprises working in these and other areas, in markets around the world. For instance in Brazil, Trê is tackling sustainable production and consumption through fashion. In Accra, Kampala, Kigali and Nairobi, film, music and video game production companies like An African City

are offering new cultural experiences anchored deeply in tradition. In New York, the New Museum is incubating startups like Project Inkblot, which uses design to reframe “diversity” from a compliance issue to a growth issue that CEOs want to embrace; and Studio Elsewhere which couples biophilic design and our innate connection to nature to build regenerative rooms in hospitals for overwhelmed doctors and nurses treating the COVID-19 virus.

These are just a few of the examples highlighted in a recent report from Creativity, Culture & Capital, a new initiative we launched, with a global network of contributors and partners, in January 2021. The initiative seeks to develop a just, sustainable and profitable global creative economy through impact investment. As 2021 is the United Nations’ International Year of Creative Economy for Sustainable Development, now is the time to consider the wide range of global opportunities aligned with art, design, culture, heritage and creativity where impact investors can make profit with purpose. Below, we’ll explore the need for this investment, and discuss some innovative impact funds that are acting upon it.

Driving Social and Environmental Impact Through the Creative Economy

The United Nations recognizes the creative economy as a powerful force for good, livelihoods, social cohesion and economic development. Creativity and culture are even named in the targets of four of the UN’s 17 Sustainable Development Goals (SDGs): Quality Education (Goal 4); Decent Work and Economic Growth (Goal 8); Sustainable Cities and Communities (Goal 11), and Responsible Consumption and Production (Goal 12). However, there is no single SGD uniquely highlighting creativity and culture. That may be one explanation for why impact investors — many of whom organize their strategies around the SDGs — have been slow to prioritize the creative economy despite its size and significance.

Despite limited targeted investment, there is a small but growing number of impact investment funds focused 100% on the creative economy. These include:

- The Arts & Culture Finance Fund in the U.K., which lends growth capital to nonprofit arts organizations and social purpose businesses in the creative economy;
- The HEVA Fund, based in Nairobi, which invests in the creative economy of East Africa with a focus on fashion, media and design, and special funds for women entrepreneurs;
- The LISC NYC Inclusive Creative Economy Fund in the U.S., which invests in affordable workspaces for creative economy businesses generating quality jobs for middle-skill workers, as part of a strategy focused on strengthening low-income communities; and
- France’s Mirabaud Patrimoine Vivant (“Living Heritage”), a private equity fund at socially responsible Mirabaud Asset Management focused on European artisan and traditional craft businesses.

There are also dozens of impact funds focused on specific creative industries, such as sustainable food (like Accel Food), ethical fashion (like Alante Capital) and social impact media (like Essence Creators and Makers Fund). Some of the companies these funds invest in work early in the value chain, with a focus on ethical and sustainable raw materials. Others focus on the use of art and design to add value and transform raw materials into something delicious, beautiful or enthralling.

The Multiple Impacts of Investing in the Creative Economy

There are other socially responsible and impact funds with significant investments in the creative economy that often pass unnoticed. That's because funds with a stated impact goal of backing entrepreneurs who are women or Black, indigenous or people of color (BIPOC) often end up investing in the creative industries because that's where many of these entrepreneurs are focused.

For example, Community Investment Management is an institutional impact investment manager that has provided \$1 billion in strategic debt funding to scale responsible innovation in lending to small businesses and other underserved communities in the United States. Roughly one-quarter of its small business lending portfolio is in the creative economy, with a focus on food, media and design. A leader in the socially responsible fintech sector since 2015, it funds two to three times more women-, BIPOC- and veteran-owned businesses than conventional banks and financial institutions.

Even more striking is the example of Runway, which launched in 2017 to address the “friends and family” funding gap for African American entrepreneurs by providing seed funding plus holistic business support. All but one of the 28 businesses Runway invested in through its first cohort in Oakland, California are in the creative economy, in areas ranging from fashion to food and design.

Finding these opportunities requires impact investors to apply a creativity lens which, like a gender lens, acts as a viewfinder, bringing opportunities into focus and helping investors to see the multiple impact dimensions of a single company.

Impact Investing in the Global Creative Economy Today

Though many don't realize it, the creative economy has been part of the impact investing conversation since the very beginning. Starting in 1998 — the Stone Age of impact investing — the Rockefeller Foundation began a 10-year effort, through its Program Venture Experiment, to make investments in alignment with all the Foundation's program areas. At the time, Rockefeller had a Creativity and Culture program, which led it to make two investments in the creative economy: Smithsonian Folkways Recordings' Global Sounds (a “virtual encyclopedia of the world's musical and aural traditions”) and netomat, a tech startup that grew from a Whitney Museum of American Art exhibition.

In those early days of impact investing, few could have predicted how much the sector would grow in the subsequent decades. With global sustainable and impact investing at almost \$31 trillion in assets under management (as of early 2018), these investors now control a vast amount of capital that could transform creative enterprises around the world. As the International Year of Creative Economy continues, now is the moment for the impact investing sector to revive its early appreciation for creativity and culture as a driver of impact and return. To that end, Nesta's Art and Culture Finance, Fundación Compromiso and Upstart Co-Lab have joined together to develop a global impact capital vehicle that will invest through national and regional funds in Africa, Europe, Latin America, the U.K., the U.S. and beyond.

In the meantime, impact investors can begin making the creative economy a pillar of their portfolio strategy today, through funds like Community Investment Management, Runway and others that feature creative economy businesses in their portfolios. Cultural institutions — with more than \$58 billion in their endowments (according to Upstart Co-Lab’s research) — and individuals can also contribute, by requesting their advisors and fund managers to make these investments a priority. As momentum grows behind this new focus, more opportunities will become visible.

For investors seeking high-quality, high-impact enterprises, the creative economy is an opportunity that’s too important to miss.

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