Culture Impact Profit: Reflections on the Rise of Impact Investment in Culture

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Over the past two decades, a new funding model has emerged at the crossroads of philanthropy and traditional profit-motivated investment called “impact investing.” Generally, impact investors proactively seek investment opportunities that generate a positive, measurable social and environmental impact in addition to a financial return. Impact investors typically provide loans or take equity in businesses active in areas such as climate, education, and health. Recently, however, impact investing has expanded into arts and cultural funding, including investment in grassroots music venues, cultural centers, design studios, circular fashion brands, and film production houses. This raises the question: Can impact investment in the cultural and creative sectors be an effective investment strategy to contribute to the amelioration of existing crises like climate change, social inequality, and the shrinking of civic space in different parts of the world?

Our perspective on this question comes from our backgrounds as a former grantmaker in arts and culture and an impact investor in social enterprises. We have both seen the importance of subsidies and grants in supporting not-for-profit organizations, as well as the vital role that impact investors play in the private sector. However, we also experienced the challenges and limitations of both of these funding models in practice. For example, socially engaged cultural organizations are often dependent on short-term project grants, shifting donor agendas, and untransparent and top-down application and selection processes. On the other hand, impact investors do seek financial returns, making it an unsuitable funding model for smaller initiatives that are not set up to scale or that cannot repay a loan without extracting resources from the people they aim to serve.

Impact investors can be high-net-worth individuals, philanthropic foundations, endowed institutions, and banks that are looking to make social and environmental impacts and a financial return on their investment. The definition of what constitutes impact investment remains a subject of debate among different practitioners. The Global Impact Investment Network (GIIN) estimates that the global impact investing market holds $1.571 trillion in assets under management.1 Despite appearing substantial, this figure represents only a small fraction of the overall traditional investment market.

Impact investment can take a variety of forms. Some investors provide venture capital to climate-tech or healthcare startups; others invest in real estate such as affordable housing initiatives for low-income individuals and families. Additionally, some impact investors provide loans to large nonprofit organizations with the capacity to pay them back over time. Through social impact bonds—also known as “pay-for-success” bonds—some investors fund social programs aimed at achieving specific outcomes. If the social outcome of the project turns out to be sufficiently high, investors are paid back by the commissioner, such as a public sector or governing authority, and receive a return on investment. But if the project fails to produce sufficient results, investors lose parts or all their investment.

Most often, impact investing is done through specialized intermediaries, or impact funds that pool capital from multiple investors to finance a diverse portfolio of social enterprises. Unlike philanthropic funds, which focus solely on social impact, or traditional investment funds, which prioritize profit, impact investment seeks a balance between financial return and social and environmental impact. It often accepts higher risk or lower financial returns relative to conventional investors. Crucially, the reporting by the investee about the impact of the investment (impact returns) forms a key part of the process.

Impact investment with a specific focus on the cultural and creative sectors is still relatively new, with only a few funds specifically focusing on culture as a driver for social change. And this is not surprising because the gap between impact investors and cultural actors is large. Cultural organizations and creative enterprises are often unfamiliar with the financial instruments, financial jargon, and impact measurement metrics of impact investors. On the other hand, impact investors are often unfamiliar with the peculiarities of the cultural and creative sector, which encompasses of a mix of not-for-profit initiatives, but also for-profit enterprises such as design studios, film production houses, and alternative music platforms. Furthermore, impact investors are new to the hybrid business model, the patchwork of revenue streams, the project-based nature, and the alternative ways of working in the sector.

Here we look at three distinct types of impact investment, with a particular focus on the role of arts and culture as a driver for social change: investment in cultural spaces, creative productions, and creative ventures.

Investment in Cultural Spaces

We believe that impact investors can play an important role in supporting cultural organizations to acquire ownership over buildings and land or by helping them finance the construction or renovation of cultural spaces. By adopting cultural spaces as an investment strategy, impact investors can enhance the long-term resilience of art centers, music venues, heritage sites, open-air cinemas, and sculpture gardens as essential part of the public sphere.

Several impact investors have adopted creative placemaking as an investment strategy. In New York, there is the LISC NY Inclusive Creative Economy Fund which provides loans to organizations that own, lease, and manage affordable cultural spaces and to create job opportunities for low- and middle-income residents. Also the Triodos Bank, one of the oldest sustainable banks in Europe, provides loans dedicated to cultural spaces. The bank has financed theaters, museums, art spaces, cultural cooperatives, and collaborative workspaces in several European countries. The bank also collaborates with the Stadmakers Fonds, a dedicated impact investment fund, to assist creative pioneers with buying property or land to set up circular hubs, creative centers, and public neighborhood gardens.

It seems to us that impact investors could be particularly effective when they prioritize investment into cultural initiatives that aim to transform buildings that are abandoned or sites that lay fallow into cultural centers for experimentation and expression. We think that investing in these cultural freehavens can help them break out of temporariness and make them permanently part of the civic infrastructure of the city. Impact investors could focus on enhancing the civic role of these cultural spaces as part of their investment strategy. Moreover, they could play a role in making sure that these cultural spaces remain collectively owned by the cultural groups that manage and use them.

In practice, this could involve, for example, removing grassroots music venues from commercial ownership by purchasing their freeholds and renting them back to operators at market-resistant rates. Or by purchasing land and placing it in a foundation that has enshrined in its statutes a prohibition against selling the land, ensuring it remains a permanent part of the cultural commons for current and future generations. By doing so, we believe that impact investors have the potential to help safeguard grassroots cultural spaces from financial speculation and from exploitation as tools in gentrification processes. Furthermore, such an investment approach ensures that cultural spaces remain affordable, accessible places for free artistic experimentation while countering the shrinking of public space and pushing back against the encroaching commercial monoculture.

Investment in Creative Productions

Impact investors can also invest in creative productions, such as films, theater performances, music, indie games, and even large-scale contemporary art projects. This can look like a loan for scaling up a concert in a large venue or for an artist to buy technical equipment such as film gear or an instrument. Loans could cover upfront costs and production expenses for a theater or dance performance, with repayment coming from a portion of the box office revenue. Investors can enter into a revenue-sharing agreement with a production studio to distribute risks and earn a portion of future sales revenue. For example, an indie game developer could secure upfront investment for a video game in exchange for a share of the game’s future sales revenue.

There are various funds that provide loans for upfront production costs such as Cultuur+Ondernemen, which offers low-interest loans to individual artists, curators, musicians, and cultural companies such as small film studios in The Netherlands. Similarly, the Arts & Culture Impact Fund offers loans to help cultural organizations build resilience and deliver social outcomes in the United Kingdom. The fund has financed a theater company that supports diverse young talent from marginalized areas and a record label based in a prison. Next Narrative Africa and the HEVA Fund recently launched a new impact fund which will allocate $40 million in equity investment to back audio-visual projects produced in Africa and the diaspora on topics such as gender, racial equity, and climate justice. Other funds have offered leasing options that allow artisans to gradually acquire specialized craft machinery, making the artisans the owners of the equipment at the end of the lease term. Additionally, specialized funds provide guarantees for large-scale museum exhibitions, enabling upfront marketing costs to be repaid through boosted ticket sales generated by the heightened promotional efforts.

In terms of social impact, it could be argued that documentaries, music, exhibitions, and games can help raise awareness about urgent issues such as climate change and social injustices to inspire behavior change among the public and challenge deeply ingrained mindsets, attitudes, and habits. While culture can inform and inspire, abundant research also shows that people who are simply given more information about a social issue are unlikely to change their beliefs or behavior.2 A more impactful strategy might therefore be to combine investment in a documentary or a theatrical release with an advocacy campaign, aiming to engage targeted audiences such as policymakers.3

We believe that investors could also make a considerable impact without binding artists or filmmakers to predetermined goals such as climate advocacy and awareness raising. Instead, investors can support creatives for their counter-hegemonic potential and their ability to critically question, explore, and subvert any urgent topic of their choosing. By investing in artistic freedom, expression, and editorial independence, investors contribute to the expansion of civic space in society. In this way, art can be more than just a vehicle for delivering a specific message.

Investment in Creative Ventures

Impact investors can invest in entrepreneurs who launch or scale creative companies that leverage design and fashion, to drive social and environmental change. For example, an investor might provide convertible loans or venture capital to an independent fashion brand or a design studio, aiming to accelerate the transition to a regenerative economy and bring systemic change in the textile and design industry.

There are various examples of impact investors that have acquired equity stakes in design and fashion studios that make a social impact. Some focus solely on investing in circular fashion startups, others have place-based strategies focused on supporting ventures that create jobs in a marginalized neighborhood. The New York–based Upstart Co-Lab provides equity investment in ventures in ethical fashion, sustainable food, impact film, TV, and video games with a specific focus on women and BIPOC individuals and low-income communities. Another fund, the Boston Ujima Project, implements a democratic and participatory investment process in specific neighborhoods with a mission to return wealth to working-class communities of color. The investment committee of Boston Ujima works in tandem with members of the community to decide which creative businesses they believe will positively impact their own communities.

There are also funds that provide small loans to start a business, with low interest rates, grace periods, zero collateral, and repayment schedules with no payments of interest until after the project can cover expenses. Alternatively, an interest percentage can be paid once the project becomes profitable enough to do so. For example, if a venture becomes extremely successful, an additional percentage of generated profit can be returned to the impact fund, paying that success forward to the next company that requires finance.4

We believe that impact investment can be particularly effective when it focuses on those designers who are building a regenerative economy by revitalizing traditional crafts and developing and testing new materials and production processes. There are various examples of designers who are experimenting with bio-based materials such as compostable mushroom roots and algae. Others are experimenting with new production technologies such as digital knitting and the use of robotics in building 3D structures with leftover wool. While some of these designers wish to focus on artistic research, others would like to develop companies around their prototypes and would benefit from the venture-building support that impact investors can offer.

In the investment process, impact investors and design and fashion companies could use the “steward ownership” model, which is still relatively new in the creative industry. This governance model preserves and protects the mission or the purpose of a company by splitting profit rights from voting or controlling rights. Steward-ownership is guided by two principles. The first is self-determination, which means that power over the company cannot be speculated with but is held by a foundation or trust directly connected to the company’s operation and mission and purpose. The second principle is purpose-orientation, which means that profits serve the purpose and will be reinvested in the company.5

An example of steward ownership in practice is the fashion brand Patagonia, which became a self-owned company with the earth as its only shareholder in 2022. Practically, this means that the management decided that ownership is managed by a trust and a foundation. The trust secures the company’s values and independence, and the foundation ensures that profits (about $100 million a year) are used to combat climate change. Companies could also consider adopting the Zoöp governance model, which was developed by a group of legal experts, ecologists, artists, designers, entrepreneurs, and philosophers at the Het Nieuwe Instituut in Rotterdam. The Zoöp model makes sure that the interests of other-than-human life are part of the decision-making process of an organization by adding a person with a special function to the board. This person, the “Speaker for the Living,” helps translate the interests of other-than-human life into the organization’s decisions.

Culture Impact Profit

Impact investment in the cultural and creative sector has the potential of pooling resources from a diverse coalition of funders, including charitable foundations committed to artistic freedom, banks interested in assisting with buying property or land, private investors willing to accept lower-than-market-rate returns in exchange for social impact, and high-net-worth individuals who understand the vital importance of art to broaden and change our outlook, to ask uncomfortable questions, and show us alternatives and new perspectives for the future.

With the potential emergence of more impact investment funds for culture, we believe it is essential to carefully balance three key domains when making investment decisions. Firstly, we believe impact investors should consider the “cultural domain” in which their investments are embedded. By supporting grassroots music venues, cultural centers, theater collectives, or sculpture gardens, impact investors can strengthen the “cultural commons.” The cultural commons are distinct from market-driven cultural production and government subsidies.6 A vibrant cultural life carries intrinsic value that distinguishes the cultural sector from any other field. We believe that impact investors could prioritize the strengthening of the cultural commons by financing cultural spaces and freehavens that resist gentrification and commodification.

Secondly, investors can consider the “impact domain” to evaluate how their investments address urgent societal and environmental challenges, such as growing inequality and the transition to a regenerative economy. In our view, impact investors should exercise caution when it comes to imposing reductive outcome measurement on individual cultural projects, and instead evaluate impact within the broader context of systemic development and synergies between different initiatives. The social impact of cultural initiatives is complex, long-term, and interdependent.
Lastly, investors can consider the “financial domain” in order to evaluate the viability of a cultural initiative and determine whether it can repay its funding without compromising its cultural value or social purpose. Impact investment in the cultural and creative sectors requires “patient capital,” or long-term investment provided with the understanding that returns on investment will be realized over an extended period, and with lower financial expectations compared to traditional impact investments. Furthermore, steward-ownership models present an interesting alternative to shareholder value primacy and an important step towards ensuring that companies in the creative industries prioritize their long-term purpose.

By integrating these three domains into their investment decisions, impact investors can provide a unique funding model alongside state subsidies and art philanthropy, to strengthen the self-sustainability of the cultural and creative sector and enhancing its distinct impact on society.

Notes

1

Dean Hand et al., “Sizing the Impact Investment Market 2024,” GIIN, October 23, 2024 →.

2

Ann Christiano and Annie Neimand, “Stop Awareness Raising Already,” *Stanford Social Innovation Review*, Spring 2017 →.

3

See for example the organization Think-Film, which develops impact campaigns of this kind.

4

Seed Commons defines this as “non-extractive finance.”

5

The term “steward-ownership” was coined by the German Purpose Foundation in 2017.

6

More about the “cultural commons” can be found in the work of Pascal Gielen, such as in his book *Trust: Building on the Cultural Commons* (Valiz, 2024).

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Return to Issue **#150**