How to Invest in the Arts without Buying a Picasso

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Two years ago, I had breakfast with a colleague — very nice guy who has helped build the social, or "impact," investing sector. I shared my ideas about how to connect impact investing with the arts.

To him, investing in the arts meant buying a Picasso or a Van Gogh, collecting art objects. He agreed there was a market for fine art. But impact investing in the arts? He was dead against it.

My friend is comfortable using the market to scale solutions for green energy, healthy food, and clean water. He guides investors balancing their commitment to social impact (doing good) with their desire to make money (doing well). He helped popularize social impact bonds. He is one of the good guys.

But when it came to thinking about the arts as a way to tackle sustainability, to make communities strong and vibrant, as a rich source of new business ideas and quality jobs, as a money-making and do-gooding proposition — he wasn't having it.

Creative Placemaking and the Creative Economy

With increased awareness of creative placemaking, the role of artists as community leaders, asset builders, and job creators has become more visible.

What is the creative economy?
The creative economy describes an economy fueled by ideas, focused on art, culture, design, entertainment, media, and innovation. Businesses in the sectors of fashion, culinary arts, architecture, game design, and industrial design are all part of the creative economy.

- In San Francisco, Deborah Cullinan has re-imagined Yerba Buena Center for the Arts as a community center, a citizen institution that engages in local priorities, like promoting a ballot measure to ensure funding for the arts and homeless families.
- In Mississippi, Nia Umoja has started the Cooperative Community of New West Jackson. This clothing designer and eco-entrepreneur is working with her neighbors to secure property through a community land trust, renovate abandoned houses, and tap into the skills of the local residents, especially related to gardening and food.

- On the South Side of Chicago, Theaster Gates is buying and transforming neighborhood buildings, starting community arts centers, building affordable housing, creating vocational skills programs for young people, and opening manufacturing jobs facilities to employ his neighbors.

Foundations have been influential in defining the concept and developing the field of creative placemaking, first through research and convenings, next by bringing attention to the vibrancy of communities across the country, and now increasingly with funding, through ArtPlace America and by prioritizing creative placemaking within arts program strategies.

But philanthropy has not done as much to encourage growth in the creative economy, the sort of job-creating, wealth-building business activity that naturally occurs in creative places. Specifically, arts funders have not connected with impact investors to engage their capital and skills to scale a creative sector that is inclusive and equitable.

Impact investing in creative places and busi-nesses is the exciting next chapter. It will build upon the successes of creative placemaking and harness the growing sources of impact investment capital, which already dwarfs philanthropic capital in America today.[1]

Creative placemaking and the creative economy were mainstays of community development long before they had the nifty names. When leaders in community development finance — who have a mandate to make capital available in communities not adequately serviced by traditional (i.e., profit-maximizing) capital markets — look at how they have been investing their money, they realize a meaningful amount has gone to finance affordable housing for artists, shared work space and retail space for craftspeople, and small business loans to artisanal food producers, textile companies, and designers. Many community developers have invested in the creative economy, but few have done it on purpose through a “creativity lens.”

Just three examples: In 2015, the CDFI Fund of the US Treasury determined it had deployed $460 million into creative placemaking and the creative economy.[2] Recently the Calvert Foundation (which despite their name is an impact investment intermediary focused on strengthening communities) recognized that $20 million of its existing $300 million investment portfolio was supporting creative places and creative businesses. The Local Investment Support Corporation had already invested $26 million in creative placemaking and the creative economy before setting up a dedicated program to do just that three years ago.

Even when communities lack financial assets, they have plenty of cultural heritage and creative potential. Creative places and businesses are solidly investable, anchoring communities that often get passed over, and effectively driving social impact. And creative people gravitate toward solving problems like how to turn the tools of capitalism to positive things: stewarding the environment, building community cohesion, and making wealth more inclusive.

That is why artists are starting social-purpose businesses, including some of the 10 percent of US-based certified B Corporations in creative industries:[3]

- Jeni Britton Bauer is the founder and CEO of Jeni's Splendid Ice Creams, a certified B Corporation that partners with Ohio farms, direct-trade growers and producers, and women-led businesses. Bauer's business employs a diverse working community and incorporates recycling in its business model. Bauer's background as a visual artist inspires her creative process in the kitchen.
- Tze Chun is the founder of Uprise Art, a New York–based startup that makes displaying and collecting art easy and accessible for the next generation of art collectors. Curating corporate art collections, Uprise Art shows how art can be a means to employee engagement, retention, and recruitment. For eight years prior to founding Uprise Art, Chun created modern dance works, site-specific performances, and multimedia projects through Tze Chun Dance Company.
- Matt Stinchcomb was a member of French Kicks, a New York–based indie rock group that toured extensively across the United States and internationally for more than five years. As the first employee at Etsy.com, an online marketplace for 1.5 million craftspeople and entrepreneurs, Stinchcomb led marketing, expanded the company to Europe, and served as vice president of values and impact. In 2015, Etsy was the first certified B Corporation to go public.

These three artists started businesses — and businesses run on investment capital, not on grants. As social-purpose businesses, these creative companies can attract impact investment capital. But we need the right investment tools to make that happen.

Why Should the Arts Care about Impact Investing?

Why should arts funders learn about impact investing, much less try to connect impact investing to the arts?[4] Because, as they say, *that's where the money is*.

- The arts receive 5 percent of US philanthropic giving, roughly $17 billion annually.[5]
- If the arts got 5 percent of all the investment assets of US foundations,[6] that number would be $43 billion.
- If the arts got just 0.5 percent of all the investment assets under management in the United States,[7] that number would be more than $200 billion.

For foundations and other impact investors to invest in the arts at anything approaching these levels, there would need to be plenty of good investments. And there are. Arts and cultural production are 4.2 percent of US economy, or $704 billion.[8] But today impact investing in arts and culture is 0 percent,[9] *because we don't have the right investment products, funds, and dedicated strategies to put impact capital to work.*

Tools that enable investors to direct their capital do not exist (yet) for art and creativity. Like bonds that provide debt financing targeted to build affordable housing for artists. Or venture capital funds that direct risk capital to start-up companies in sectors like music, fashion, or food. Or public stock index funds that invest in the creative economy by buying shares of companies like Etsy, Autodesk, and Spotify.

Anyone with a few bucks can buy a share of Etsy stock today. But that is not the same as a professional investment advisor aligning an investor's values and financial goals, researching the best investment opportunities, actively managing risk at the portfolio level. It is not the same as a marketplace that allows large and small investors alike to put their capital into the creative economy, or a system that can scale in response to good investable opportunities, incenting talented entrepreneurs to work in the creative sector.

Last year two leading impact wealth advisory firms were independently asked by two national foundations to advise on mission-related investing.[10] They came back with a range of options related to the foundations' priorities for stewarding the environment, strengthening communities, and supporting women and girls. They reported there was nothing available for promoting arts and creativity.

This gap needs to be addressed. As more individuals turn to impact investing and more foundations turn to mission-related investing, sectors that lack products, funds, and strategies to channel investment capital will lose out. It is becoming urgent. Foundations led the way on impact investing: sparking the discussion, building the infrastructure, and priming the pump with the first dollars in. Now is the time for arts funders to take their turn leading the way for impact investing in the creative economy.

Unleashing More Capital for Creativity

In April 2016, Upstart Co-Lab was launched to connect artists, impact investors, and social entrepreneurs to create opportunities for artist innovators to deliver social impact at scale. One of Upstart's goals was *to unleash more capital for creativity*.

Upstart's near-term goal is to attract new sources of capital for creative communities and companies in creative industries. In the longer term, we believe it is possible to catalyze a larger conversation around creativity as an investment lens consistent with a focus on sustainable companies, quality jobs, inclusive economies, and cohesive communities.

Where do PRIs fit?

For years, foundations have structured loans to nonprofit cultural organizations as program-related investments (PRIs). PRIs are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. They are a creature of the federal tax code and exclusively available to private foundations.

But according to the Foundation Center, of the many thousands of grantmaking foundations in the United States, only a few hundred make PRIs. In addition, relatively few PRI funders maintain formal PRI programs or make PRIs annually (about one out of three).[11]

In most cases, PRIs are made from a foundation's annual operating budget in lieu of a grant rather than from the foundation's endowment. As a result, most PRIs do not deploy additional capital to a foundation's mission priorities beyond the 5 percent the foundation is already required to spend annually.

Program officers who have been involved with PRIs are familiar with the inherent tension: the implicit assumption that a foundation will not foreclose on a grantee that cannot repay a PRI loan. For that reason, a PRI is often a grant dressed up as a loan.

Working through an investment manager and participating in a structured investment product put foundation's capital to work as a true investment. It also opens the door for other impact investors — including endowed nonprofits and individuals — who cannot make PRIs.

Currently, Upstart is assessing national demand for loans to creative places and businesses. Some of the efforts we are already tracking include the following:

Artspace, a national nonprofit real estate developer and pioneer in creative placemaking dedicated to providing affordable space for artists. Artspace currently manages more than forty properties in twenty states supporting fourteen hundred low-income artist families and three hundred creative enterprises.

Community Arts Stabilization Trust, a nonprofit real estate development and holding company that creates long-term/permanent affordable workspace for arts organizations in the San Francisco Bay Area. CAST acquires properties, builds the capacity of arts organizations as property owners, and secures affordable space in perpetuity for artists and arts organizations.

Equinox Studios, a 100,000-square-foot, 100 percent artist-owned shared workspace in Seattle for artists and artisans including blacksmiths, sculptors, painters, ceramicists, woodworkers, leatherworkers, glassblowers, and photographers.

Small businesses in creative industries ranging from artisanal food producers and fashion, apparel, and textile companies, to design firms and music labels.

In partnership with the Calvert Foundation, Upstart Co-Lab is exploring the potential to launch a creative economy investment initiative. This would include a targeting option for the Calvert Foundation Community Investment Note™ to a portfolio of impact investments supporting Creative Places & Businesses. This would be the *first accessible impact investment opportunity for investors seeking to align their portfolios with a commitment to the* *arts and creativity*. The Community Investment Note is open to a range of investors, from individuals investing $20, to institutions, like foundations and pension funds, investing up to $20 million.

Investing in the Arts and Cultural Equity

The arts community's conversation about cultural equity is one of the most important in recent years. In discussions with arts leaders, I sometimes encounter an implicit challenge: Can the market system that contributed to structural inequity be harnessed for good purposes?

Social investing leaders like former vice president Al Gore describe capitalism as one of the most powerful and unifying forces in human history. The reason to engage and reshape the market system is that the force that built an inequitable society has the power we need to rebuild a just and equitable society.

As I launched Upstart Co-Lab, I sought the counsel of my colleague Darren Walker, who in his role as president of the Ford Foundation has spotlighted the arts as a powerful tool to promote social justice. I explained that Upstart was based on the idea that art and social entrepreneurship went hand in hand, and wanted to be sure he did not see a contradiction with his focus on art and social justice.

Not only did Walker see no contradiction, but he pointed out the powerful synergy: social justice is the goal; social entrepreneurship is the practical engine to create the jobs, build the communities, make education accessible, and do many of the tangible things required to achieve that goal. The two ideas go together and deeply strengthen one another.

That said, not every artist is a social entrepreneur. Not every program or activity in the arts community is or should be investable. Impact investment will not replace grantmaking in the arts. However, *more is more* — and if some artists and arts activities can tap investment capital, that leaves more philanthropy dollars for the rest.

What's a social entrepreneur?
Regardless of whether they are working through a nonprofit or a for-profit, social entrepreneurs play the role of change agents in the social sector by

- adopting a mission to create and sustain social value (not just private value),
- recognizing and relentlessly pursuing new opportunities to serve that mission,
- engaging in a process of continuous innovation, adaptation, and learning,
- acting boldly without being limited by resources currently in hand, and
- exhibiting heightened accountability to the constituencies served and for the outcomes created.[12]

What's Next?

There are three actions arts funders can take now to help unleash more capital for creativity.

Educate social entrepreneurship funders about artist social entrepreneurs. Most social entrepreneurship funders just do not know that many artists have a social practice. Share with program officers focused on innovation and entrepreneurship — at your own foundation and beyond — the compelling examples of artists who are working to reform the criminal justice system, tap the resident capacity within communities to solve challenges, spread health and fellowship, and steward the environment, like Gregory Sale, Ebony Noelle Golden, Robert Karimi, and Aurora Robson.

Engage colleagues leading impact investing at your foundation. Foundations actively investing for impact are already tapping their program officers on issues like environmental conservation, clean energy, sustainable food, community development, women and girls, and education. Program staff have thematic expertise and understand what approach aligns best with their foundation's mission, values, and theory of change. Starting talking with your investment colleagues, familiarize them with investable creative placemaking opportunities and social-purpose businesses in creative industries. Help shape their thinking as new opportunities to invest in the creative economy become available.

Use grant funding to build the enabling environment for investing in the creative economy. Foundations like Rockefeller, Mac-Arthur, Heron, Omidyar, Case, and others built the enabling environment for impact investing. They did this through grant support, thought leadership, and convenings long before they made impact investments. The creative economy and the investable segment of creative placemaking need the same sort of nurturing now. Even if your foundation has not yet committed to impact investing, your grantmaker's tools can be effective at creating the conditions that connect impact investors to investments in the creative economy. A strong future for the entire arts sector depends on it.

The arts' secret weapon

Impact investing is destined to support the creative economy. Why? Some of impact investing's real pioneers were trained in the arts:

- Clara Miller, founder of Nonprofit Finance Fund, who is now revolutionizing the field of mission-related investing as president of the FB Heron Foundation, majored in studio art.
- Jed Emerson, who started investors thinking about "blended value," kicked off 2016 with a blog musing about the importance of museums and music (including his own guitar playing).
- Patricia Farrar-Rivas, founding partner and CEO of impact investment advisor Veris Wealth Partners, had an early career as a dancer.

- Will Rosenzweig is a serial social entrepreneur and venture capitalist. His Physic Ventures invested in companies promoting human and planetary health and wellness. At the start of his career, Will was a professional mime.
- Debra Schwartz, managing director of impact investing at the MacArthur Foundation, was active in the student theater at Yale College.

Finale

My impact investor friend was one of twenty-five venture capitalists and impact investors who joined thirty innovators and social innovators, and thirty individual artists with a social practice at the daylong launch of Upstart Co-Lab in April 2016 to talk about the arts, impact investing, and social entrepreneurship. I am happy to report the next time we had breakfast, he understood exactly why we need to connect impact investing with the creative economy. And he even had some tips about how to do it.

Laura Callanan served as senior deputy chairman of the National Endowment for the Arts before launching Upstart Co-Lab in 2015. As a consultant with McKinsey & Company, Laura led work on social innovation, sustainable capitalism, and social impact bonds. Following a stint as a Wall Street investment banker, Laura managed the endowment for the Wallace Foundation and later the Rockefeller Foundation, where she also led social investing.

NOTES

1. According to the US SIF Foundation's 2016 *Report on Sustainable and Responsible Investing Trends in the United States*, as of year-end 2015, $8.72 trillion or more was invested according to SRI strategies; http://www.ussif.org.
2. Community Development Finance Institutions (CDFIs) share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf.
3. B Corporations are for-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency; https://www.bcorporation.net/what-are-b-corps.
4. For more information about impact investing, see Rosalie Sheehy Cates and Shin Yu Pai, "Impact Investing 101, GIA *Reader*, 27, no. 2 (Summer 2016); http://www.giarts.org/article/impact-investing-101.
5. http://data.foundationcenter.org/?_ga=1.226110617.264723876.1471360192.
6. http://data.foundationcenter.org/?_ga=1.226110617.264723876.1471360192.
7. https://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2015/11/The-worlds-500-largest-asset-managers-year-end-2014.
8. https://www.arts.gov/news/2016/arts-and-cultural-production-contributed-7042-billion-us-economy-2013.

9. https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/impact-investor-survey-2015.pdf.
10. Mission-related investments are made by foundations and other mission-based organizations to further their philanthropic goals. MRIs are part of a foundation's endowment and have a positive social or environmental impact while contributing to the foundation's long-term financial stability and growth; https://www.missioninvestors.org/mission-investing.
11. http://grantspace.org/tools/knowledge-base/Grantmakers/pris.
12. https://entrepreneurship.duke.edu/news-item/the-meaning-of-social-entrepreneurship/.